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# China Report

## ECONOMIC AFFAIRS

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19 August 1985

CHINA REPORT  
ECONOMIC AFFAIRS

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## NATIONAL POLICY AND ISSUES

### MAINTAIN GOOD ENVIRONMENT FOR ECONOMIC REFORM

HK220755 Beijing JINGJI YANJIU in Chinese No 5, 20 May 85 pp 3-12

[Article by Wu Jinglian [0702 2417 8834]: "More on Maintaining a Good Economic Environment for Economic Reform"--written in Apr 85]

[Text] In my article "Problem of Guideline of Development and Macroeconomic Control in the Initial Stage of Economic Reform (RENMIN RIBAO, 11 February 1985), I discussed the problem of how to ensure a good economic environment for the economic reform through enforcing a correct guideline for economic development and strengthening macroeconomic control over the national economy. Due to the shortage of space, certain questions were not expounded clearly. It seems necessary to make a further elucidation.

#### Why Economic Reform Requires a Broad and Lax Economic Environment

In that article, I mentioned that in order to ensure the smooth progress of the economic reform, it is first necessary to have good economic environment in which macroeconomic relations are relatively coordinated, relations in supply and demand in the markets are not too tense and the finances and material reserves of the state are fairly well-off.

Why is it necessary to have such an economic environment? Basically, this is because the general direction of the economic reform lies in changing the former economic pattern which refutes the monetary relationships of commodities and the role of the law of value and establishing a structure of planned commodity economy so that the market mechanism can play an even greater role. At the same time, the necessary prerequisite for the market mechanism to play an active role is the existence of a buyer's market in which total supply exceeds total demand.

This problem was first discussed by an economist engaged in studying the reform of the structures of the national economies of East European socialist countries. Bruce, in his systematic elucidation of a pattern of "planned economy embodying a market mechanism which is subject to regulation," pointed out: "The basic condition for ensuring that in this type of economy market mechanism can effectively display its role" is the formation of a buyer's market of a limited scale" (footnote 1) (F. Bruce: "Problem of Operation of Socialist Economy" (1961), Chinese Social Sciences Publishing House, 1984

Edition, pp 191, 151-152). In his book "Democratic Socialist Economy," Xi-Ke [6932 0344] mentioned seven conditions for market mechanism to display its active role of which the first was: The "existence of a buyer's market in which total supply commands a slight excess over the total effective demand. (Footnote) (O. Xi-Ke: "Democratic Socialist Economy; see compilation by Rong Jingben [2837 2417 2609] and others: "Selected Treatises on Socialist Economic Forms, People's Publishing House, 1983 edition, p 244).

These views are reasonable. In a commodity economy, market mechanism plays an active role from two sides on policy-making in the operations of an enterprise. On the one hand, it makes the producer strive hard to improve his micro-production structure, so as to suit market demand. On the other hand, it makes the producer strive to lower the cost of production and to practice economy in resources, thus to suit the environment of market competition. Thus, the benefits to the enterprise can be increased and at the same time it is in accord with the interests of the consumers and society as a whole. But, in order that the market mechanism can perform this role, there must be competition among the producers (sellers) as a prerequisite and therefore a buyer's market is needed. If there exists a seller's market in which supply lags behind demand, the producers will not feel the pressure of competition and will not care to arouse their own full enthusiasm and initiative to improve management and control and to meet social needs.

Our country's economic circles came into contact with this problem in the discussions on the problems of the relations between readjustment and reform after the party Central Committee's formulation in 1979 of the 8-character guideline of "readjustment, restructuring, consolidating and improving." At that time, certain comrades, having absorbed the results of foreign researches, pointed out that an all-round reform of the economic structure must be subjected to the prerequisite of definite results having been achieved in the readjustment work of the national economy. This is because "under acute economic conditions, structural reform that calls for division of power cannot be realized." "Making social production exceed direct social demands and making the supply of commodities exceed the demands that are backed by the capacity to pay and thus setting up a consumer's or buyer's market is a prerequisite for the normal development of regulation by market mechanism." (Footnote 3) Liu Guoguang [0491 0948 0342]: "Brief Discussions on Several Problems Relating to Planned Regulation and Regulation by Market Mechanism," JINGJI YANJIU, No 10, 1980; refer also to Wu Jingliang: "Relations Between Reform of the Economic Structure and Readjustment of the Economic System," carried in "Researches on Problems of China's Economic Composition," edited by Ma Hong [7456 3163] and Sun Shangqing [1327 1424 3237], People's Publishing House, 1981 edition, pp 798-803). Although the advocacy of "establishing a socialist buyer's market" was the cause of disputes, yet subsequently, particularly at the 1980 year-end, when it was decided to further readjust the national economy, the great majority of people agreed that at the initial period of enforcing the "8-character" guideline, readjustment should be adopted as the major task and the strategy of partial reform should be carried out under conditions which are beneficial to readjustment; it would be better to wait until the major proportionate relationships are generally coordinated and a relatively magnanimous economic environment begins to appear before undertaking an all-round reform of the economic structure.

After the summer of 1984, some economists began to analyze the above from the angle of what constituted the appropriate amount of currency supply and advocated another viewpoint. They drew an illustration from the commodity economy in foreign countries, believing that a super-increase in currency supply is economic development's own demand and that at the present stage of our economic development the increased purchasing power from a super-increase in the issuance of banknotes represents a powerful motive force promoting the development of production. In other words, if the measure of increasing the issuance of currency is adopted and a larger and effective demand in excess of current commodity supply is created, then a high rate of development of production can be stimulated.

This theory which advocates increasing currency supply to create an effective demand and thus prevent a stagnated economic development and promote economic prosperity is akin to the adovation of Keynesianism, the mainstream of Western economic theories after World War II. Keynes' adovation and his relevant polices have been adopted by many Western countries and have become predominant views. Moreover, the volume of currency supply and the accompanying expansion of the effective demand did actually, for a certain period, postpone the eruption of capitalist economic crises and bring about a relatively faster economic recovery, thus maintaining the general trend of economic growth.

Nevertheless, this theory is not applicable to our country.

First, regarding the insufficiency in effective demand seen in Western economy, an excessive issuance of currency can play the role of increasing effective demand and frequently can be used as an effective measure to ward off economic depression, to prevent the eruption of an economic crisis or to stimulate economic recovery. But in the markets of our country, a state of demand being in excess of supply regularly exists. Against this type of "shortage economy," so-called by the Hungarian economist (J. Kornai) [Ke er nai 2688 1422 1143], excessive currency supply can only aggravate the degree of economic tension and renders it difficult to transform a long-standing seller's market to a buyer's market. It is disadvantageous to the formation of an economic environment which can ensure that market mechanism effectively performs its role.

Second, even in Western countries, many people have come to realize the defects of stagflation and lowering of efficiency brought about by an excessive currency supply. Use of currency inflation to maitaing prosperity is akin to drinking poison to quench thirst. Hence, an increasing number of countries have turned to the policy of controlling the volume of currency supply. The first country to adopt this measure was the Federal Republic of Germany. In 1948, Aehart, who was in charge of the country's economic affairs, enforced his measures of currency reform and other relevant policies. Within a short space of several years, the FRG succeeded in recovering from its hopeless state of the post-war period, and, over the next 20 years or more, achieved a sustained development. The West has called this an "economic miracle." According to Friedman, another critic of Keynes, "the so-called

Aeihart's economic miracles was really very simple; it only removed the restrictions on commodity prices and wages, permitted free market activities and at the same time strictly limited the total volume of currency in circulation." (Footnote 4) (M. Friedman, "On Currency Inflation," Chinese Social Sciences Publishing House, 1982 edition, p 33; also refer to (L. Erhard) [Ai ha de 6424 5337 0761 1795]: "Prosperity From Competition," Commercial Press, 1984 edition). Japan, during the so-called "take-off" period, in the years 1955 to 1973, of economic high-speed development, also adopted the policy of maintaining the stability of commodity prices through controlling currency supply. Throughout the period, the average yearly rise in Japan's wholesale prices was maintained at within 1.5 percent. Toshio Suzuki, director of the currency research bureau of Japan's Central Bank pointed out: Basic stability at the take-off stage of the general level of market prices is an important condition for realizing economic development at high speed; if, like the enforcement of a currency inflation policy in certain countries, the general price level rises, then because enterprises cannot follow correct price signals and make the best decision on the arrangement of resources, the economic results of the whole national economy will fall and there will be no way of realizing a sustained growth. (Footnote 5) (Outline of Toshio Suzuki's Lectures in Beijing: "Experiences and Theory of Control of Currency Supply at the Take-off Period of Japan's Economy," March 1985. In his lecture, Toshio Suzuki pointed out: In a commodity economy, changes in the system of relative prices (comparative prices) provide the road signs for the enterprises to select production activities with the best results. Through changes in the comparative prices of products, the market relays to the enterprises two kinds of information of a decisive significance: First, informing the enterprises on the condition of changes in supply and demand. If the enterprises can grasp the opportunity and expand the production of those commodities in acute demand, then their benefits can be increased. At the same time, seen from the national economy as a whole, if the material resources are diverted to the production of products in acute demand, the macroeconomic results will also be increased. Second, the enterprises are informed of what kinds of raw materials and equipment to be used to maintain low level in the cost of production. Since the plentiful supply of commodities and the technological progress made have lowered the cost of production, the enterprise can rapidly increase its returns from input at relatively lower prices. At the same time, also seen from the national economy as a whole, due to a more extensive use of those material resources which are plentiful and whose production cost is low, the macroeconomic results will be improved. However, the availability of the above-mentioned information depends solely on the condition of the stability of the general level of prices. This is because individual enterprises can observe the price changes through the fluctuations of the prices of unitary commodities while there are two factors which affect the price changes of unitary commodities: (1) changes in the general level of prices; (2) changes in the relations of comparative prices. Under the condition of the general level of prices being stable, changes in the prices of unitary commodities signify a change in the comparative price of the commodity. The enterprise can use this to make a policy decision which is most beneficial to the enterprise and to society; otherwise, the enterprise will make an erroneous policy decision due to the untruthful price signal). Obviously, we can learn much from this.

## It Is Particularly Necessary to Maintain a Broad and Lax Economic Environment at the Initial Stage of Reform

Following the "Decision on Reform of the Economic Structure" made in October, 1984, by the 3d Plenary Session of the 12th CPC Central Committee, reform of the economic structure centering in the cities and towns developed in an all-round manner. Under such conditions, certain comrades have begun to believe that since the closed-door and ossified old structure--the main hindrances, to the display of the vitality of our socialist economy--have been removed and since the new structure which is full of life and vitality is being established, we have the practical possibility, concurrently with developing all-round economic reform, of greatly speeding up the development of industry and agriculture and other enterprises, greatly increasing investments in fixed assets, and improving on a large scale the people's consumption level. In my opinion, this viewpoint is more or less one-sided.

Doubtlessly, taking a long-range view, economic reform will greatly improve socialist production relations of our country and bring about a great liberation of productive forces. However, between the start of the reform to the reform achieving notable results, a rather long time lag exists. At the initial stage of the reform, on the one hand, the results of the reform achieving improved economic benefits and increased income have not yet fully appeared. On the other hand, enforcement of economic reform requires the immediate disbursement of a definite amount of funds, principally because reform implies a large-scale readjustment of the interest relations between people and in order to ensure that in such readjustment the great majority of the people are benefited, the state necessarily has to spend an appropriate amount of funds. Adding together the factors on these two sides, it is possible that at the start of the reform there is a large-scale increase in the demand that is backed by the capacity to pay, far exceeding an increase in the supply of commodities. If such a state of affairs develops, then the newly-achieved, but limited, buyer's market may be lost again, and difficulties will be cause to the effective operation of the new economic mechanism. Confronted with such a situation, there are two selections before us: either, at the beginning of the reform, the speed of economic development is made very high, the capital construction front is extended rather far, and the people's consumption level is greatly raised; or, at the very start of the reform, an appropriate policy of retrenchment is adopted and relatively large financial and material reserves are kept to support the reform. Adoption of the former alternative may cause the reform to meet with difficulties while adoption of the latter alternative can enable the reform to proceed relatively smoothly. This has been proved repeatedly by practice in the reform of the economic structure of socialist countries.

Some countries, as early as in the preparatory stage of reform, have paid attention to the creation and maintenance of a good economic environment for the reform. For example, Hungary did the very same thing in the 1968 reform. In the "Guiding Principles Pertaining to Reform of the Economic Structure" adopted by the Central Committee of the Socialist Workers' Party of Hungary in May 1966, special chapters were devoted to relating how to create good economic conditions for the reform at the preparatory, or early, stage of

the reform; how to ensure continuity and stability in the production, circulation, and operation conditions; and how to maintain the balance of the national economy, and a series of concrete regulations were made in this connection. The document of the decision pointed out that since the active effects of the new structure can only be revealed gradually, "for the purpose of overcoming the large and small difficulties during the transitional period, both in 1966 and 1967, reserves for the start must be accumulated." Concurrently, "in the stage of enforcing the new economic structure, efforts should be made to maintain the demand for increased investments at a level suitable to the production capacity. Hence, as early as in 1967 starting of work on new investment projects should be forbidden, help should be extended to seek the early completion of the investment projects currently in progress, and there should be an increase in the number of modernized, technical renovation and investment projects which can bring about a quick return of invested funds." "At the time of the all-round enforcement of the new economic structure, the state budget should practice the utmost economy in the disbursement of investment funds and the gross amount of loans from the investment banks should be strictly confined within the limits demanded for maintaining an equilibrium." In addition, the decision further pointed out: "In the period of the all-round enforcement of the new economic structure, the most important problem is to ensure an equilibrium in the consumption market, principally for the purpose of avoiding a spiral rise of commodity prices and wages characteristic of currency inflation." Practice has shown that the above-mentioned regulations have performed a good role in ensuring the healthy progress of Hungary's 1968 reform and economic stability at the initial stage of the reform.

Poland's experiences in the 1973-1975 reform are also worth our attention. Poland carried out this reform while the 1971-1975 5-year plan was still in progress. This reform was not a success and since then Poland has gradually fallen into a "state of intensive crisis." (Footnote 6) (See "Polish Government Report on the Economic Situation (June 1981)." Subsequent events all cited from this report.) Making an analysis on the basis of a formal report made by the Polish Government, it appears that the first important cause of this crisis in economic policy was that from the very first year (1971) of the 5-year plan, Poland had carried out a so-called "strategy of high-speed development." "According to this strategy, the Polish authorities planned to step up investments by means of the method of more extensively utilizing foreign loans, thus to overcome the economic stagnation in the final period of the 1960's." Simultaneously, "there was a notable increase in consumption, particularly in actual wages. During the 1971-1975 period, the increase in actual salaries and wages was the highest in the whole post-war period. The result was that for several years in succession investments and the income of the residents both increased at an exceedingly rapid rate, faster than that which the created national income could possibly offer." In the first few years of the 5-year plan, on account of the bountiful harvests in agriculture resulting from good weather for several years in succession, in addition to certain international advantageous conditions, economic development progressed rather smoothly. Nevertheless, because of the high-speed development for several years in succession, in the year (1973)

of the start of the reform, symptoms of certain proportionate imbalances and of tenseness began to appear. Despite warnings made by the specialists and although the imbalances and degree of tenseness at the time were still not too serious and it was still possible to maintain an equilibrium by means of slowing down investments, the rate of increase in the residents' income, and the making of foreign loans, without necessarily resorting to absolute reduction, yet the authorities failed to adopt any measures of retrenchment. "On the contrary, in 1974, they made a supplementary decision to maintain an extremely high speed in investments and put in force, ahead of schedule, a plan to raise salaries and wages originally conceived for the next 5-year plan period." "Thus, after a lapse of 2 years, in 1975 and 1976, all the symptoms of economic illness broke out." Under such conditions, "the reformed structure was in reality abandoned and the former highly centralized structure was restored." This former structure, with its various serious defects, then turned around to become "a basic factor in worsening the economic situation." Thus, these factors worked reciprocally, causing a vicious cycle and resulting in a "reduction in material production, a slowed utilization rate of productive assets, a drastic fall in the labor productivity rate, violation of labor discipline and a general decline in operation results." Ultimately, a crisis developed.

In view of the experiences of these countries, many economists abroad engaging in research work on reform of the economic structure have advocated that in the first few years we must consciously slow down the growth rate of production, reduce capital construction investments, and avoid immediately increasing, on a large scale, salaries, wages and bonuses, so as to put aside sufficient funds for use in the economic reform, and so that a good economic environment for the reform may be ensured.

The economic reform in our country is being carried while the people of the whole country are struggling for a turn for the better in the financial and economic situation. At present, the economic condition in our country has already been vastly improved. However, we have an enormous population but a very weak background. The current industrial structure and product structure in our national economy still have many problems. Energy resources, communications, and the supply of raw materials are still in a tense state. Our budget is still in the red and the national treasury has to make loans from the banks. Therefore, we can hardly say that our mission of striving for the country's financial and economic situation in turn basically for the better has been fully realized. Because the existing financial and economic problems are basically due to the very low economic results and because the low economic results are caused by the past ossified and closed-door economic structure, in order to seek a basic improvement in the financial and economic situation, the fundamental method is to reform the economic structure. However, to take relatively big steps in the economic reform, the state will have to expend a rather large amount of funds. But since at present the state is not at all financially strong and its material resources and foreign exchange reserves are not plentiful, too much and too great increases in the expenditures on various sides may hamper the financial

and economic situation in turning for the better and may actually make it become worse. In such circumstances, we can only take the following strategy to open up a road to a benign cycle: This is: Retrenchment on all sides and full conservation of energy on ensuring procurement of the necessary funds for the economic reform. If the financial resources of the state are ample, there is a greater possibility for the economic reform to take bigger steps forward. In turn, the economic relations on all sides can be more readily smoothed out, the financial and economic situation can speedily turn for the better and enter a benign cycle earlier. Thus, while in the beginning, the economic development may seem to be a little too slow, and the rise in the consumption level of the populace is not at all speedy, yet, on account of the smooth progress of the economic reform being ensured, in the end both will pick up speed and in the long run the people will receive more real benefits.

Seen from this viewpoint, the fact that, in the second half year of last year, particularly in the last quarter, the scale of fixed assets investments tended to be too large, the consumption funds increased too rapidly, waste and extravagance in administrative expenditures was serious, credits and loans went out of control and there was an over-issuance of banknotes which was disadvantageous to the smooth progress of the economic reform. It is true that early this year, after the central authorities adopted a series of measures to control investments and loans, to step up the withdrawal of currency from circulation, to oppose the new incorrect practices, and to strengthen macroeconomic control, the situation has somewhat improved, yet the tense relations in the market have caused certain difficulties to the current economic reform, particularly to price reform, and rendered us incapable of taking relatively bigger steps in "readjusting" and "liberalizing" prices. All we can do is take small steps forward.

Inflation in investments and the undertaking of capital construction on a scale that exceeds the national capacity are chronic diseases. They cannot be cured immediately. Whenever the economic situation is improved, these old diseases can recur easily. Meanwhile, under conditions where the administrative control of the consumption funds of the enterprises has been liberalized through the measures of "loosening the bond and delegating power to the lower levels" and the system of the enterprises administering their own financial affairs and being solely responsible for their own profits and losses has not yet been perfected, a "new illness" of inflation of consumption funds and increases of wages and bonuses far exceeding the national strength can easily arise. Since the experiments in economic reform began in 1979, we have several times experienced inflation in varying degrees of the accumulation funds and consumption funds. This situation illustrates that at no time should we liberalize the control of the accumulation funds and the consumption funds. Rather, we should closely observe the development of the economic situation and whenever anything unusual happens we should take immediate steps to overtake it.

In recent years, the speed of the development in industrial and agricultural production in our country has steadily increased. The growth rate of the gross output value of industry and agriculture increased from 4.6 percent in 1981 and 8.7 percent in 1982 to 10.2 percent in 1983 and 14.2 percent in 1984; while in the first quarter of this year, it increased by 23 percent over the corresponding period of last year. How should we look at this existing high growth rate?

One point of view is that this speed of development is normal and healthy and that we should adopt effective measures to support this development trend from all sides. Yet another viewpoint is that in recent years the rapid increase in the development of our country's economy is a good thing and implies that in our country the work in economic readjustment and reform has already reaped certain results. However, it suggests that such a high growth rate is a sign of the "over-heating" of our national economy and that it is necessary to resort to appropriate measures to have it restricted. The writer concurs with latter point of view.

Those comrades who support the former point of view base their conclusion on the following: 1) At present, the growth of our agriculture, light industry, and heavy industry progresses at more or less the same pace; this illustrates that proportionately there is a coordinated development between the major departments of the national economy; 2) by far the great proportion of the products enjoy brisk sales and purchases, there has been a reduction in the stockpiling of these commodities, and the former situation of "industry reporting only the good news" and "commerce reporting only the bad news" no longer exists; this thus shows the coordination in supply and demand relations in our national economy; and 3) in general, growth in output value has kept pace with the growth in taxes and profits in the enterprises, thus illustrating the improvement in economic results and the ability of the state's financial resources to support this high growth rate.

The relevant facts mentioned above do really exist and certainly denote an improvement in the various relationships in the national economy of our country. However, it would be lop-sided if we were to conclude from these conditions that the current state of the growth rate should be sustained and allowed to continue.

First, in 1984, the relationships between our agriculture, light industry, and heavy industry were relatively coordinated. Compared with the situation before 1981, this was extremely good progress. Nevertheless, we must note that while the proportionate relationships between agriculture, light industry, and heavy industry to constitute the important constituent portions of the proportionate relationships among the departments of the national economy, after all they do not constitute the whole of these proportionate relationships. 1. They do not include the proportionate relationships between the production departments of industry and agriculture and the indispensable basic facilities for modern production such as the communications, postal and telegram

## Keeping the Rate of Economic Growth Under Control Within an Appropriate Scale

In order to keep accumulation funds and consumption funds under control within an appropriate degree, an important problem is to control the growth rate within an appropriate scale. In the history of socialist construction in our country there have been repeated occasions of either investments or consumption getting out of control or of both getting out of control at the same time, due nearly mostly to seeking a high target in the growth of production. Now, if this problem is not solved, the mission of maintaining a good economic environment for the economic reform can hardly be realized.

(J. Kornai), in his well-known publication "Shortage Economics," made a penetrating analysis of an overly long capital construction front and inflated accumulation funds. According to his analysis, this situation arose mainly from two causes: On the one hand, leaders at various levels all harbor a wish to expand the enterprises under their charge, there being a state of "impulse for expansion," as a result of which an increase in investments becomes a desire that cannot be fully satisfied. On the other hand, "soft budget control" constitutes the other cause. Since the party concerned bears no material responsibility for the risks arising from expansion in investments, the desire for self-restraint in extent of investments does not exist. As a result, "hunger for investment" became a chronic disease which was difficult to cure under the old structure (Footnote 1) (J. Kornai): "Shortage Economics," North Dutch Publishing Company, 1980 edition, pp 207-210). Under the traditional structure, the common disease of "hunger for consumption" frequently accompanied "hunger for investment." This was because a considerable portion of the investments would be ultimately expended as the salaries and wages of the capital construction workers (in our country, expenditures for salaries and wages consumes about 40 percent of the fixed assets investments), because there are in existence the correct wishes of improving the standard of living of the workers and the desire to display one's "model results" in competition with each other, and also, under the "soft budget control" the leaders in the enterprises are not opposed to the rapid and sharp increases in the workers' salaries and wages. At present in our country, economic reform is only making a start, the state of "everybody eating from the same big pot" out of funds under "soft budget control" has not yet been basically rectified. If leadership at various levels and social public opinion one-sidedly advocate a "high growth rate," this kind of "impulse for expansion" and the accompanying "hunger for investment" and "hunger for consumption" will all intensively develop, ultimately resulting in the situation being out of control and the development of the national economy returning to the old path of high targets and poor results. Going back to this old road will make it difficult for the development of a benign cycle for the national economy and the maintenance of its stability or for the maintenance of the good economic environment needed for the economic reform.

and service departments. 2. They do not reflect or denote whether or not there are normal internal relationships in industry and agriculture, between industrial production and energy, particularly production of electricity, and between the processing industries and the raw materials industries. In our country, the vanguard departments such as communications, posts and telegrams, and so forth have traditionally fallen behind and although in the resolution of the 12th CPC National Congress they were listed among the strategic and major departments, they have not shown any real progress in recent years. From 1981 to 1984, the growth rate of industrial and agricultural production was 43.1 percent but the freight turnover volume of the transportation departments increased by only 26 percent while the improvement in the news and information sector was even more limited. During the same period, electric power generation increased by only 24.6 percent. All this has given rise to a state of stringency in recent years in the fields of energy, communications, and news and information. In the country as a whole, several tens of millions of tons of goods have regularly been accumulated, waiting for transport, while the shortage in electric power supply has been generally above 10 percent. During the same period, the growth of the processing industries represented by the machinebuilding and the electronics industries was 63 to 97 percent whereas that of the raw materials industries represented by the metallurgical industry and the chemical industry was only 30 to 40 percent. As a result, the shortfall in supply of raw materials has become extremely acute. Certain raw materials such as steel products were extremely short in supply and must be imported in large quantities from abroad.

Due to the irrational prices in our country and with the products of the processing industries being generally high-priced and highly remunerative, striving for too high a growth rate in the economy may make the investment departments inclined to show favoritism toward the processing industries. Hence, if the current high growth rate is not restricted, then the gaps in raw materials, electric power, communications and so forth may continue to widen. Moreover, we should remember that in our country the resources, on a per-capita basis, are by no means abundant and the ecological environment presents many problems. To simply seek an increase in output value without considering other factors will aggravate the wastage of resources and the deterioration of the environment. In short, our country's current capacity cannot stand for long the present high growth rate. If the growth rate is allowed to develop and surpass the capacity of the energy resources, communications, raw materials and foreign exchange holdings, then eventually it may be forced to fall sharply. We should avoid such a catastrophe.

Second, at present in the markets in our country, the sale of commodities is thriving. Neither among the consumer goods nor among the means of production can any product be found which suffers from stagnation in sales. But this is not sufficient to conclude that the supply and demand relations in the national economy are coordinated, or that all the products are marketable, or that the current economic results are good. Actually, at present the brisk sales of commodities in the market and the complete clearance in sales of the stock of products which are sub-standard in quality, or are

highly priced, or have been stockpiled in the warehouses for years, are not in reality a normal phenomenon. The main cause of this phenomenon is since the second half year of last year, banknotes have been over-issued, resulting in a sharp increase in the people's purchasing power. If there is an over supply of currency and if effective demand exceeds a certain extent, consumers are liable to generate a psychology of crash buying and hoarding of stocks, without considering whether or not the goods are suitable for use or if the prices are too high.

It should also be pointed out that last year the high-speed development of industry in certain localities depended on the crudely-liberalized growth (reproduction by extension) of the processing industries and an excessive input of funds and resources into the industries. In recent years, of the large number of companies and enterprises, many have made use of local resources and idle labor power to undertake production of commodities which conform with social needs and have truly contributed to making the economy prosperous and the markets generally flourishing. Nevertheless, a certain portion of the companies and enterprises have owed their growth to the guidance of erroneous signals and the stimulus of false social demands. As a result, certain of the enterprises which had low economic results, incurred high production costs, generally turned out products of poor quality, and in general and from the long-range view, had no development future, have nevertheless succeeded in enjoying a mushroom growth by means of support from bank loans and appropriations from local authorities. This caused a sharp increase in investments since last year which had not been envisaged in the state budget. The sharp increase in investments reacted to aggravate the tense state already ruling in the market for means of production. It brought about the brisk sales of certain electrical machinery products which had already been considered obsolete or outdated several decades ago. Moreover, orders for future delivery of goods filled the market. In reality, this portion of the newly increased productive forces has already gone beyond society's real demand. Once this false purchasing power is lost, or the high growth rate is curbed or is unable to be maintained on account of the short supply of resources and energy, then this portion of productive forces formed by the stimulus of false demand would be driven out of the production sector and production would be stopped, or become idle, or even invalidated. This will create an enormous waste of social funds.

It should be specially noted that the emergence of this overly brisk purchasing power may cause a reverse trend in the situation of the formation of a buyer's market. The reappearance of a seller's market will have unfavorable effects on the improvement of the economic results and on the all-round development of the reform of the economic structure.

Third, last year, our country's gross value of industrial and agricultural production increased by 14.2 percent. In the country, financial receipts, computed on comparable standards, increased by 12 percent over the preceding year. In general, the gross output value and financial receipts both increased at about the same place. In January and February this year, among the enterprises owned by the whole people and incorporated into the budget, the growth rate of their output value and that of the realized taxes and

profits were in general approximate to each other. Certain comrades thus believed that this proved that the financial power of our country was capable of supporting the current super-speed growth rate. This viewpoint needs our comment.

First, output value is computed on the basis of constant prices whereas taxes and profits can only be computed on the basis of current prices. In the circumstances of rising prices, the tax base is raised and naturally, taxes and profits will increase. However, in comparison with the original price level, this is a kind of "false or unreal receipt." If, based on the increase of this unreal receipt, we subsequently increase the expenditures, then a situation of "unreal receipt but real expenditure" will be formed, and the size of the budget deficit will increase. In 1984, surplus financial receipts amounted to 15.9 billion yuan but because of an even larger amount of surplus expenditures, a further increase of the deficit resulted. This illustrated the above point.

Second, even though, after putting aside the above-mentioned incomparable factors, it is found that output value and financial receipts have increased at the same pace and that within a certain period there are signs of plentiful financial resources and of strong financial power, still we cannot conclude therefrom that the super-speed growth rate of output value and investment is healthy and normal. In a capitalist market economy, there are found the phenomena of accelerated multiplier effects of investments and accelerated changes in consumption and investment. The former illustrates the multiplying function of investment on income and consumption and the latter illustrates the accelerating effects of income and consumption on investment. The common role of these two factors is one of the causes for the appearance of periodical economic fluctuations. In reality, the state of investment and income reciprocally promoting each other is not confined only to a capitalist economy. In the history of the development of the national economy of our country, similar conditions have appeared many times. When such a condition appears, if the traditional method of "pyramiding" is adopted and, with the support of credits and loans, investment and consumption are increased, then the "positive feedback" role, as mentioned in cybernetics, may be generated, causing the signals to be continuously strengthened, ultimately resulting in shaking the foundations of the system and even in catastrophic changes. The upward spiral of the economy caused by the reciprocal effects of investment and income cannot go on without limit. The top limit of economic growth is determined by the availability of the supply of resources. Once this availability is exceeded, then the accelerated rise of the economy will drop at a progressive negative acceleration rate from the top of the peak to the bottom. We should take advance action to avoid such violent ups-and-downs.

Summing up the above, it is necessary for us to adopt measures to hold in check this "excessively-heated" trend in current economic life.

1. We must set up among all the cadres--particularly leadership cadres--the ideology of seeking truth from facts and advancing in firm steps, refrain from the method of blindly seeking and mutually competing for a high growth

rate, and earnestly shift our attention to improving economic results. This target of gross output value has rather serious defects. It is not only disadvantageous to the overall reflection of conditions of development of the various undertakings outside the scope of industrial and agricultural production. However, it is liable to contain a large portion of "inflation." Using it to assess the condition of the economic development of various localities, departments, and enterprises can easily generate the spiritual pressure of doubling and redoubling efforts, cultivating the habit of seeking high targets and of proneness to boasting and exaggerating and the egalitarian practices of "raising funds" and "levying charges." It does not contribute to promoting the development of the basic facilities and construction and of various kinds of service industries and trades essential to improving economic results. Therefore, promotion of the method employed by Shanghai Municipality of taking the condition of the growth of the gross national output as the major target for assessment is extremely correct.

2. We should start from controlling the growth of consumption funds so that the super-speed of the growth of industrial production will gradually slow down following the gradual weakening of the demand that is supported by the requisite purchasing power. The retrenchment should take the form of slowly "stepping on the brakes." Over-violent retrenchment may make it difficult for the productive forces already formed to be shifted to the departments whose products are in short and stringent supply, thus causing extravagance and waste; at the same time, it would widen the gap between supply and demand and adversely affect the withdrawal of currency from circulation. As for the current measure of tightening the money market, we must firmly enforce it but must also avoid the error of treating everybody alike. For different departments we must adopt, discriminately, measures of restraint or support. In cutting down the investments in fixed assets, we should also differentiate between different conditions and adopt different methods of treatment. Apart from summarily stopping the undertaking of those projects which are not urgently needed and which require large investments but produce poor economic results, or whose feasibility is not exactly assured, we must firmly undertake or retain those major projects which are urgently required to strengthen the "short-line" departments such as the electric power, communications, postal and telegraph departments. The problem appears to be that the task of cutting down fixed asset investments which are outside the budget is not a small one and is highly difficult. In addition to continuing with the adoption of administrative measures, new measures should be resorted to. They should include stepping up the employment of such economic leverages as taxation and interest rates and guiding the investments of the localities, enterprises, and residents to the correct direction of reinforcing the "short-line" departments.

Third, we must do our utmost to speed up the progress of the work which is supplementary to the work of reform and also speed up the work of perfecting the new economic structure. As mentioned above, "impulse for expansion," "hunger for investment," and "hunger for consumption" are all related to the "soft economic control," that is, the practice of "everybody eating from

the same big pot," under the old structure. The current state of the lop-sided development of the processing industries and the relative backwardness of the raw materials industry, basic facilities, and service industries and trades have been brought about by the irrational system of prices. The fundamental road to overcoming the "over-heated" trend is to enable the reform to move forward in a healthy manner. For example, the efforts that should be made in this direction include further reforming the currency structure and readjusting the interest rates, further improving the taxation system, changing the operation form of the small enterprises, readjusting comparative prices and differential prices and carrying out other reforms on prices, readjusting residential rent, treating residences as commodities, and so on. Measures of this kind will help in perfecting the economic structure and rasing the "degree of rigidity" of budget restrictions. They will help in curtailing the "impulse for expansion" and "hunger for investments."

#### Macroeconomic Control and the Coexistence of Two Systems

National economy is an immense structure or system which is formed organically by a large number of constituents which utilize and depend on each other and each of which possesses special functions. Like any other structure, in order that its various constituent parts may operate in a coordinated manner so as to realize its overall function, each and every one of its constituent parts must have its own system of adjustment and control. Only when this system can normally perform its regulatory functions is it possible for the economic structure to operate smoothly. Different economic systems have different mechanisms of readjustment and control. Under the traditional socialist economic pattern, leadership organs at various levels employ administrative directives to exercise macroeconomic regulation over the national economy. In a planned commodity economy, economic, legislative and administrative measures are employed to enforce macroeconomic regulations through the market. In the course of economic reform, in order to ensure the transformation of the old pattern to the new structure, how to bring about the smooth transition of the macroeconomic regulatory mechanism and to ensure that there will be no disorder in economic life has been from the beginning one of the central problems attracting the attention of planners of economic reform programs in various countries.

In our country, because reform of the economic structure adopts the form of gradual transition, realization of the macroeconomic control of the national economy is especially difficult and complex. We all know that reform of the economic structure may adopt different forms. Roughly speaking, one form calls for the main sectors of the economic structure to effect the changes simultaneously and in a "wholesale" fashion. Another form calls for the reform of the various major sectors to be carried out gradually one after another. Scholars in different countries have different views concerning the merits and demerits of these two forms. Generally speaking, viewed simply from the operations of the national economy, it would be best to adopt the "wholesale" method. This is because the various sectors of an

economic system are mutually related and mutually restricted, and only by means of the principal sectors jointly and in a coordinated manner effecting the changes can the smooth and effective operations of the new system be ensured. Therefore, many economists believe that only the "wholesale" type of reform can achieve success. Nevertheless, all-round reform of the "wholesale" type frequently causes rather large reverberations, because it can readily surpass society's capacity to cope with it and may make the reform meet with difficulties. In order to avoid such difficulties, certain theorists, having in mind the political and economic situation as a whole, advocate the use of the method of a gradual reform, seeking to transform the large reverberations into small reverberations so that the reform can be more readily accepted by the people. Economic reform in the cities of our country generally adopts the latter method.

However, the latter method also has its problems. This is because the reform is carried out gradually and therefore we cannot avoid the problem of the existence, for a rather long period, of "two systems" and "dual transit regulations." (Footnote 8) (A Polish scholar wrote: "Under the conditions of the enforcement of a partial reform, there always exist two, or dual, economic systems.... Under such conditions, a portion of the economic area will operate according to the regulations of one system, while the other portion of the economic area will follow the regulations of another system." (Ye Kellai-er [5102 0344 5490 1422]: "Economic Reform of Socialist Countries in the 1960's"; see the American MAGAZINE OF EAST EUROPEAN ECONOMISTS, winter issue, 1974-1975) Mixing together two different systems may cause conflicts in operation and thereby increase the difficulties of macroeconomic control. Under the "dual system," an article will naturally have several, or "multiple," prices (including commodity prices, foreign exchange prices or foreign exchange rates, prices of capital funds, that is, interest rates, and so on). Under the system of multiple prices, if effective control is lacking, various kinds of illegal and money-making activities, such as illegally dealing in foreign exchange and in interest rates, buying at low prices and selling at high prices, speculation and profiteering, and so forth, will become rampant. Other important forms of new and improper practices on the part of officials such as making use of their official power to seek private gains may also appear, including abusing one's authority to conclude business deals, reaping profits from differential prices, and so forth.

Since the co-existence of two systems is liable to continue for a sustained period, under such conditions, singularly relying on only one kind of measures is hardly possible to completely prevent the loss of control over the macroeconomy. Hence, in strengthening macroeconomic control, it is necessary to make full use of many kinds of effective measures.

First, observance of the principle of concurrently, and in the same steps, carrying out microeconomic liberalizing and doing a good job of macroeconomic control. Regardless of whatever side the reform is being carried out on, it is necessary that concurrently with liberalizing the microeconomic activities, definite measures should be formulated and enforced on carrying out macroeconomic control well. As for macroeconomic control, it is necessary to follow the principle of "setting up first and tearing down second." By no means should a state of vacuum be allowed to exist in macroeconomic regulation.

Second, formulating the relevant economic statutes and perfecting various regulations and systems in due time. Our departments of control at various levels must grasp the work of clearly understanding the policy limits and of perfecting the regulations so that there are laws to govern various kinds of economic activities and no loopholes in the systems.

Third, maintaining the effectiveness of directives and the solemn character of discipline. Seen from the entire process of the reform, the role of administrative directives will gradually decline while the role of economic measures will steadily increase. However, at present, in the national economy, a rather large portion still follows administrative directives. Moreover, even after the completion of the economic reform, the use of administrative measures still cannot be entirely abolished. Hence, it is necessary for us to discriminately maintain the effectiveness of regulatory measures by administrative directives. At present, the phenomena of villainizing financial and economic discipline such as illegally holding back payment of taxes and profits, and use of funds without authorization are still generally found and there are frequent instances of non-observance of laws and directives. Against conditions of this kind, we must, on the basis of a clear understanding of the policy limits, sternly enforce discipline, back up verbal assurances with enactment of laws, and strictly enforce orders and prohibitions. We must never allow elements who have violated laws and statutes to go unpunished.

Fourth, doing the utmost to perfect regulation by market mechanism, so that the newly-established economic structure can operate normally. At present, a new structure of planned commodity economy has been partly established. But the social regulatory and control mechanism over the commodity economy is still not exactly fitting, particularly because: There are still many loopholes in the regulations governing the enterprises administering their own finances and being solely responsible for their own profits and losses; we have not yet formed a price system which can reflect labor consumption on the one hand and the state of supply and demand on the other; we still have not yet set up relatively perfect markets which can ban blockades, monopolies, and various kinds of activities in violation of just competition; the state of the regulatory organs of the currency system and planned commodity economy is still rather imperfect; and so on and so forth. The method of solving this problem does not consist of withdrawing the already delegated power of making microeconomic decisions and return to all the old leverages of the use of administrative directives; rather, it is to push the reform forward, strive hard to fill up the gaps to the end that all the reform measures can fit together and become dragon-like and that within the regulated limits of macroeconomic planning which is flexible and can maintain the coordination of the large and important proportionate relationships, microeconomic activities can be bustling, like the dragons rising and tigers leaping, and can be carried out in a lively manner.

Fifth, strengthening parameter regulation and learning to comprehensively use various economic leverage to control economic activities. In a planned commodity economy, the principal measures of macroeconomic regulation, or,

the link centers, between the planned policies of macroeconomy and the market policies of microeconomy, are such economic parameters as taxation, interest, and prices. At present, in market regulation, our leadership organs are still not skilled enough in fittingly using the overall functions of the economic leverages of the taxation policy, currency and credits and loans policy, wages policy, price policy, foreign trade and foreign exchange policy, and so forth. They are unable, by means of market regulation, to instill the microeconomic activities of the enterprises onto the track of macroeconomic planning. In reality, the work in this connection badly needs improvement. It seems necessary to set up a state regulatory center and regulatory organs for the various departments and the leadership organs of the localities, forming a social regulatory network and strengthening the comprehensive use of the economic leverages.

The regulatory system of macroeconomy is the sub-division of this great system of planned commodity economy. It is the organic formation of many elements. Moreover, just as said in the foregoing, under our country's current conditions, in implementing macroeconomic regulation it is necessary to adopt diversified forms of regulation. Hence, in regulating any kind of economic activities, we must rely on the combined role of diversified kinds of measures. We must take note of the accessory character of these measures. Take for example, control of the volume of currency in circulation. In order to make macroeconomic control effective, the following must be accomplished: 1) A clear understanding that the power of the issuance of currency belongs to the state's legislative or administrative organs and the limits they have placed on the volume of banknote issuance must be observed; 2) a strict demarcation of the duties and powers between finance and banking, and financial departments should not overdraw at will from the banks; 3) endowing the Central Bank with the function, power and responsibilities of maintaining an appropriate liquidity of the money market through regulating the monetary and operation activities of the specialized banks; and 4) endowing the banks with the function, power, and responsibilities, in accordance with the principle of independent planning of credits and loans, to develop the credit and loan business and to supervise the formation and use of the various kinds of funds of the enterprises. Enforcement of the above, coupled with the active cooperation of the production departments, commercial departments, foreign trade departments and supervisory and statistical departments, will make it possible to control to a suitable degree the volume of currency circulation in the national economy.

#### Necessity of Making an Overall Plan for the Targets of Reform and the Steps in Their Enforcement

It can be seen from the above analysis that the problems which have emerged at the moment are related to the lack of supplementary work to the economic measures. Hence, the problem of formulating an overall plan for the targets and the system of reform of the economic structure and the steps for their implementation has been placed on the daily agenda.

Economic reform is an immense systematic engineering project on the building of a new type of socialist economic structure. It is necessary to plan, at an early date, the blueprint for this engineering structure--the new economic structure. The more precise is the blueprint for the targets and structure. The more precise is the blueprint for the targets and structure of the economic reform, the more certain that our work in reform can accomplish clear-cut targets, progress in an orderly manner, and avoid proceeding blindly. At the same time, the more adequately the overall plan has made the arrangements for the composition of the structure and the more precise are the considerations given to the coordination of the various sub-systems, the more certain we are of being able to make the parts work in unison, enabling this great machinery of the national income to display its best overall functions. In the course of the reform in recent years, including that of the all-round reform since the second half year of last year, certain problems have arisen. These problems cannot be said to have come from the reform itself. Rather, they may be said to have been due to the measures of reform not fitting well into each other and not having been systematic enough. Naturally, reform of the economic structure is a new undertaking and everybody is lacking in experience in this regard. We can hardly demand that prior to the start of the reform, a well-laid, precise and perfect plan, which looks into all big and small details, be prepared in readiness. Nevertheless, it would be so much better if we could quickly formulate an overall plan, even though it might be rather crude at the start, and follow up with gradually perfecting it in actual practice. At present, the 3d Plenary Session of the 12th CPC Central Committee have already decided in principle on the target and pattern of the reform of our economic structure and in the experimental work in reform over the past 5 years we have already accumulated certain positive and negative experiences. It may be said that the time is ripe for assembling a number of specialists in theoretical work and practical work to study and formulate an overall planning program with relatively concrete objectives. We should proceed with this work at the earliest moment.

In order to ensure the smooth progress of the reform, we should have a strategic plan for the systematic implementation of the reform measures. Because the reform of our economic structure is being carried out gradually and for the sake of ensuring that the various steps will be taken in regular sequence and that in each and every step the principal stages of the economic system will fit into each other nicely and at the same pace, a plan of this strategic nature is deemed all the more necessary; otherwise, there can easily appear a state of confusion in which the reform measures contradict each other or keep each other in check. The time is indeed ripe for the formulation of a plan of this strategic nature.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON NEW TYPE OF COOPERATIVE ECONOMY

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[Article by Liu Yuyong [0491 3768 0516] of the Chinese Correspondence Institute of Packaging, and Gao Jianhua [7559 1696 5478] of the Organization Office of PLA Unit 81054: "The Form, Nature, and Position of a New Type of Cooperative Economy"]

[Text] Over the last few years a cooperative economy of brand-new significance has appeared in our country. It has broken through traditional economic ideas and models and provided the people with important topics which urgently need to be researched.

1. The Two Cooperative Economy Models

Over 100 years ago, Marx and Engels predicted that, under the social conditions of the public ownership of the means of production, the cooperative economy would exist. Lenin and Stalin used the cooperative economy in practice as the basic avenue for transforming small-scale agriculture. Our nation's cooperative economic organizations began to appear on a large scale during the period of socialist transformation.

For a long time, the cooperative economy has been endowed with two attributes. The first is its "quasi-socialist" characteristic. People believe that the cooperative economy is not "orthodox" socialism and is not an ideal socialist economic form, but rather that it is an unavoidable "detour" that we must take on the road of socialist development, and is only connected with the period of socialist transformation. This first attribute determines the second attribute, its temporary nature. As the cooperative economy is not an ideal form for socialism, and cannot exist for a long period, it must give way to another "ideal" socialist economic form. In fact, this is the basis on which we are treating the cooperative economy. When the cooperative economy has bubbling vitality and when its existence is an historical necessity, we are impatient to turn things into "large collectives" which are virtually the same as enterprises owned by the whole people, or even to just change the whole-people ownership name plate of an enterprise. We have also adopted a set of principles and policies which make it difficult for the cooperative economy to develop healthy. This has resulted in the cooperative economy traveling a bumpy road. It should be a flexible, diverse economic form but in fact, it is rigid and monotonous. It was originally a form whereby the laboring masses

joined together voluntarily, but it has changed into one where compulsory concoctions are arranged. There should be individual responsibility for profits and losses, but in fact these enterprises cannot decide by themselves which activities to engage in. Thus the traditional economy has not developed either in scale or in form. A twisted image of the cooperative economy has formed in people's brains. This is the first cooperative economy model and includes the original urban and rural collective economic organizations. This model of the cooperative economy plays a certain role in promoting economic development. But from the start it has been congenitally deficient. It has been unable to accord with the development of the socialist commodity economy. Much less will it be able to accord with building of an open economy.

The other cooperative economy model has appeared in recent years, and includes all sorts of joint operations, cooperation, shares and other such forms of economic organization. It has arisen as the times require, following in the steps of our nation's reforms. As soon as the "new type of cooperative economy" appeared it was clear that it had great superiorities and distinctive characteristics. Its new characteristics are: 1. It is rich in content and encompasses a broad area. The new type of cooperative economy has become the link in joining regions, industries and departments, and its influence extends to the entire process of economic activities, including production, circulation, distribution and consumption, and on all aspects of technical development and social service. 2. It has diverse forms and its operations are lively. The new type of cooperative economy can be said to include a hundred and one things of innumerable varieties. It develops through comparison and progresses through competition. 3. It has a great amount of independence externally and there is autonomy in terms of personnel, finances materials, production, supplies and sales. Internally there is scientific administration based on democratic management. 4. It lays emphasis on horizontal economic links and the bringing into play of the market mechanism.

## 2. The Forms of the New Type of Collective Economy

The forms of the new type of collective economy are not as unitary as the traditional cooperative economy. It has had diverse types since it came into being, and it has quickly developed in accordance with demands and capabilities. In general, these forms have the following three major characteristics:

First, they are composed of many interlocking levels. The traditional cooperative economy was manifested in operations composed of laboring individuals. The new type of cooperative economy has, apart from the level of combinations of individual laborers, several other levels, for example, cooperation between various whole-people ownership operations, cooperation between whole-people ownership operations and collective ownership operations, cooperation between various collective ownership operations, cooperation between whole-people ownership operations and individual laborers, cooperation between collective ownership operations and individual laborers, and so on. There are even operations where a few

of the levels are mixed up together resulting in interlocking cooperative economic organizations. We cannot simply say that cooperative economic forms arranged through cooperation between various whole-people ownership operations are exactly the same as whole-people ownership operations. They are not products of direct investment by the state, but combinations arranged through the retained portions of profits created by the enterprises' workers and staff members. Although they derive from the whole-people ownership economy, they cannot be equated with the whole-people ownership economy. It is precisely because the cooperative economy is composed of different interlocking levels that it closely links up the economic interests of the different levels, and is quite easily able to bring into play the enthusiasm of different levels.

Second, they are arranged with large space limits. The new type of cooperative economy was produced in accordance with the demands of socialist production and circulation. Thus, it must break through the restrictions in terms of space and seek development in wider spheres. The traditional cooperative economy operations were restricted to one region, one department or one industry. The new type of cooperative economy uses its own practice to challenge these narrow limits. Practice has clearly shown that interchangeable forms which have a wide range and which can link together the economic forces on all sides, accord with the principles of socialist cooperative production. The channels of socialist commodity production and circulation should extend in all directions and we should not erect various types of artificial fences. As long as it is beneficial to increasing the production of socially useful products, and is beneficial to all parties concerned, cooperation should be allowed anywhere.

Third, it is a diverse and lively form. The new type of cooperative economic organization is not restricted to one model, one method, or one avenue. If we consider their actual state and think about how they will develop, we can see that they are diverse economic set-ups. Some cooperate in terms of the means of production and some cooperate in terms of labor. Some cooperate in terms of funds and some cooperate in terms of technology. Some have long-term cooperation, others have short-term cooperation. Some have direct cooperation, others have indirect cooperation. For example, 11 provinces and cities, including Henan and Hebei, pooled funds to set up 10 plate-glass factories and 4 cement plants. The Taigu county Ma-gang [3854 6921] factory in Shanxi has been turned into an operation whereby the workers are shareholders in the whole factory. In Liaoning and other places, peasants have collected funds and entered cities to set up service operations. In all of the above cooperation, the cooperating parties all participate in the operations and management of the enterprises in their capacity as owners of funds. This form is cooperation in terms of funds. Science and technology departments have arranged science and technology exchanges, have signed contracts for scientific and technological cooperation and have carried out compensated transfer of technological results. This is technical cooperation. Some forestry enterprises have insufficient labor and thus cooperate with the local peasants, entrusting them to look after the forested areas in exchange for payment. This is principally cooperation in terms of labor. Some enterprises and units have arranged

cooperation over 10 years and others arrange it for as little as 1 or 2 years. There are also cases where A and B have a cooperative operation but A lacks certain conditions, for example a piece of equipment, which he then leases from C. For A and B this is direct cooperation, while for C it is indirect cooperation.

At present, the various forms of the new type of cooperative economy are only just beginning. Through the development of practice, other new forms may arise.

### 3. The Nature of the New Type of Cooperative Economy

In thinking about the new type of cooperative economy, we can come to four conclusions in terms of its nature:

1. The new type of cooperative economy has a clear socialist nature. It was produced on the basis of the demands of socialist construction, moves in accordance with socialist economic laws, and promotes and serves the four modernizations. Cooperative economic organizations arranged within the collective ownership system, those arranged between individual laborers and those which are formed through interlocking different levels, all adhere to the public ownership of the means of production and all follow the principle of distribution according to work. They are, in essence, the free alliance of labor under socialist conditions and have an identity with the basic interests of the laborers.

Two points need to be made clear here. The first is how we are to view the distribution of profits in accordance with funds contributed (or shares). Is there a contradiction between this and distribution according to work? We believe that there is no contradiction. This type of distribution in accordance with funds contributed is completely different from the capitalist distribution in accordance with funds contributed. In terms of the source of funds, cooperative funds have been accumulated by the various sides in the past through their labor. The utilization of accumulation secured through labor [lao dong ji lei 0525 0520 4480 4797] is a necessary condition for preparing for production activities. For the investors, it is their contribution to production, and naturally there must be some remuneration for it. The cooperative agreements are entirely voluntary, are beneficial to all sides, and mutual benefits outweigh individual benefits. The second point is how we are to link up the cooperative economy with the planned economy. The cooperative economy is guided by state planning. Most cooperative economy organizations carry out their operations in accordance with the changes in market supply and demand. However, the market situation must be related to state planning. More importantly the new type of cooperative economy must implement the state's economic policies and decrees and must operate within the limits of these policies and decrees. Thus, the cooperative economy will naturally be able to make up for the deficiencies in planning.

2. The new type of cooperative economy is an economic form which accords with the level of the development of the productive forces at the present

stage of socialism. The present level of the development of the productive forces in our country determines that we cannot implement labor alliances through the whole society, as can be done in a communist society. We can only implement labor alliances within different limits and on different levels. The cooperative economy accords with this demand of the development of the productive forces. Under the present conditions, it allows the various important elements of production to be rationally and effectively combined, reduces waste in terms of personnel, materials, and finances and achieves good economic results. The production responsibility systems in agricultural production have played a great role in promoting the development of the productive forces. Basically, these are cooperative economic forms which are based on the public ownership of the land and which rely on individual operations. The individuals, through selling a certain amount of agricultural or sideline products to the state or collective, fulfil their collective obligations. However, there is now appearing a very obvious tendency in the production and circulations spheres, towards further expansion and closer cooperation. In Henan province, there have appeared a large number of econox c combinations [lian he she 5114 0678 4357] of different types, which use individual operations as the celles, supply and marketing cooperatives as support, and have small towns as the fulcrum. These can be seen as a level or type of cooperation. The natural gas chemical factory in Luzhou, Sichuan took 5.3 million yuan from its retained profits and invested it in the Luzhou paper plant. They built a factory which can produce 33,000 tons of paper a year. The paper factory takes an amount equal to 5.5 percent of the chemical factory's investment from the profits each year and pays it as a bonus to the chemical factory. Thus within 10 years, the factory will be able to recoup its investment and will also be able to obtain considerable additional bonuses. This both increases the production of paper and also provides a suitable avenue for idle funds. This can be seen as another level, another type, of cooperation.

3. The cooperative economy is an open, socialized commodity economy form. The new type of cooperative economy has the characteristics of being geared to the market and having wide-ranging channels. Its appearance has added a motive force to socialist commodity production. Previously, the major maladies obstructing commodity production were the unitary nature of production and relations and the single channel-nature of commodity circulation. The new type of cooperative economy overcomes these maladies. It not only strengthens and develops production relations on the theoretical level, but greatly develops the socialist commodity production network. It pays particular attention to developing horizontal relationships between commodity production and commodity circulation. For example, Shanxi Province has developed cooperation with over 10 provinces and cities in the last few years, raising 503 million yuan and mining 47.68 million tons of coal. On the one hand, this has increased this province's construction funds and supply of goods, and on the other hand has alleviated the energy shortages in coal-short provinces and cities.

4. The new type of cooperative economy is a new economic form with Chinese characteristics. It accords quite well with the development of the

productive forces. It can quite easily regulate the relationships between the various sides and give expression to China's national condition. It can also be divided into various specific forms of different types and degrees and these can be selected by the different regions, units, and individuals with different conditions.

#### 4. The Position of the New Type of Cooperative Economy

The new type of cooperative economy complements the state-owned economy and plays an irreplaceable role in social economic life. Even putting the new type of cooperative economy on a par with the state-owned economy is not overstating its importance. In fact, they are the two "drive-wheels" for pushing socialist construction forward. It is not possible to dispense with either of them. If we compare the two, the output value of the state-owned economy occupies the largest portion. However, the development of the cooperative economy is very swift as is the speed of the increase in its output value. For example, in the first half of 1984, Jiangsu's industrial and agricultural output value was 15.9 percent higher than that for the corresponding period the previous year. In the same period, urban and rural collective industry grew 32.8 percent. A number of counties and towns in Jiaodong have greatly stressed the cooperative economy, and their profits in the first half of 1984 were 60 percent up on the same period in the previous year. These figures both greatly exceed the speed of growth of the state-owned economy. This trend is continuing.

The state-owned economy cannot be replaced. The construction of all large-scale projects for the railways, posts and telegraphs and banks and airlines as well as the large scale development of new technical areas, and so on, must mainly be carried out as centralized, unified state operations. However, the rapid development and flourishing situation of the cooperative economy is an objective fact. The concurrent existence and mutual development of the new type of cooperative economy and the state-owned economy is the trend of the times. The former's continued development and expanded presence will provide socialist competition for the development of the state-owned economy, and will be an important motive force in promoting economic and technical progress. Also the economic benefits it realizes (as well as the profits handed over to the state as taxes) will directly provide material conditions for the further development of the state-owned economy. If we say that the state-owned economy is the basis of common interests on a national scale, then the cooperative economy is the basis of common interests within certain limits.

The new type of cooperative economy is an independent economic component of socialism. Thus, the former habit of dividing the economy into state-owned economy, collective economy, and individual economy should be amended. A scientific division would be state-owned economy, cooperative economy and individual economy. The "collective economy" concept cannot properly represent the cooperative economy, while the new type of cooperative economy can include what is usually referred to as the collective economy. This set-up will exist for a long time to come. Something which may change is that the individual economy may change naturally into a cooperative economy and some state-owned economy operations may also start to be run as cooperative economy forms.

The new type of cooperative economy is becoming a "finalized" economic relationship within the socialist society, and also accords with Marxist principles. Engels pointed out: "In the period of transition to the perfect communist society, we must adopt the intermediate link of cooperative production on a large scale. This is a point Marx and I have never doubted." (Engels: "Letter to A. Babel, 20-23 January 1836" in "Complete Works of Marx and Engels" Vol 36, p 416). Marx and Engels believed that under certain conditions, production under the cooperative system would inevitably lead to communism. Practice has again proven the correctness of Marx and Engels' predictions.

The new type of cooperative economy in essence is a product of socialized large-scale production. Thus, at present, it is going through and will quickly complete the transition from instability to stability, from being imperfect to being perfect. It is certainly not an expedient measure, but a decisive factor in achieving constancy in the progress of socialist modernization.

CSO: 4006/777

NATIONAL POLICY AND ISSUES

YUAN BACHUA STRESSES INCREASED QUALITY CONTROL

OW201231 Beijing XINHUA Domestic Service in Chinese 1313 GMT 18 Jun 85

/Excerpts/ Beijing, 18 Jun (XINHUA)--Since the end of last year, the quality of some industrial products in our country has deteriorated markedly, evoking customers' strong resentment.

At a meeting today of leading members of economic committees of some provinces and municipalities, Yuan Baohua, vice minister in charge of the State Economic Commission, analyzed the situation and offered his opinions on enforcing quality inspection and strengthening quality control.

Yuan Baohua's opinions on halting the trend of product quality deterioration are:

1. It is absolutely necessary to have a correct guiding ideology in economic work, and to clearly understand that without quality, there can be no economic results to talk about. We must be aware that the "three synchronous increase" cannot cover up the quality problem. We must heighten our sense of quality.
2. It is necessary to strengthen quality control in every link of enterprise production management, while paying special attention to "control." We must constantly study the various quality data, discover and solve problems in time, and take the initiative in quality control.
3. Quality control should be regarded the main task of enterprise management.
4. It is necessary to conduct education and training in quality control among leading personnel and all staff and workers of an enterprise, enabling them to form a quality-guaranteeing body highly responsible to the state and the people.

Yuan Baohua called on enterprises to be modest, to highly evaluate criticisms, and to conscientiously improve product quality. He also expressed the hope that all regions and departments do a good job during the nationwide quality inspection campaign and improve the quality of Chinese products as soon as possible.

CSO: 4006/749

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON STRUCTURE OF OWNERSHIP SYSTEM

HK280600 Beijing GUANGMING RIBAO in Chinese 17 Jun 85 p 3

/Article by Liang Zhao /2733 6856/: "Several Questions on the Structure of the Socialist Ownership System in Our Country"/

/Text/ Reform of the economic structure of our country is to proceed on the basis of concrete conditions in our country, we must rely on and apply objective economic laws to correctly handle the contradictions between production relations and productive forces, and between the superstructure and economic basis. We must transform the ossified economic structure, which does not suit the development of productive forces, and establish a dynamic socialist economic structure. To enhance levels of political consciousness for the reform. It is necessary to have a correct understanding of the situation in which production relations and productive forces are both adaptable and contradictory to each other in terms of the socialist ownership structure, gain a clear idea of the drawbacks of the original economic structure, and explore possible solutions.

The Objective Inevitability of the Multilevel Ownership Structure In Our Country

It is not enough that people have only a general understanding of the situation in which socialist production relations and productive forces are both adaptable and contradictory to each other; it is necessary for them to understand the multilevel productive forces and multilevel production relations in our country, as well as the contradictions between them. In view of legal requirements that production relations must suit the conditions of productive forces, they must also understand the objective inevitability of the socialist multilevel ownership structure.

Although the national economy has developed significantly since the establishment of our country, generally speaking the production level is still relatively low. We still have a multilevel, unbalanced development of productive forces. This indicates that with our country's structure of owning the means of production, we should have an economy under ownership by the whole people, with a higher level of productive forces and also a multiform economy under collective ownership and also an individual economy, suitable for scattered operations, as a supplement to the socialist economy. Moreover, in order to speed up our socialist modernization construction, we must open up to the outside world,

introduce foreign-capital enterprises, and set up Chinese-foreign joint ventures. Experience has proved that a rational disposition of the multilevel ownership structure and a correct handling of the contradictions which crop up among the different ownerships during their development periods will be advantageous in developing social productive forces and making the urban and rural economies prosperous.

If we do not understand the objective inevitability of the multilevel ownership structure, we will wind up coming to the general conclusion that the higher the degree and the larger the scale of socialization, the better. We will regard the degree of socialization as a criterion for judging whether we are advanced or backward. As a result, we will dislike an economy under collective ownership with a lower degree of socialization. The value of flexible, diversified operational modes of a cooperative economy, will be downplayed, as will the need for a private economy. Experience shows that only when systems of ownership and modes of operation are suitable for the level of productive forces, can we effectively mobilize the initiative of laborers and push forward the development of productive forces.

Because the levels of productive forces are varied, even in an economy under the ownership of all the people where socialism predominates, the operational modes should not be uniform. State ownership should allow various operational modes. The few key enterprises which affect the economic lifelines of the state and which need a high degree of centralism and unification should be owned and run by the state. Large and medium-sized enterprises should be owned essentially by the state, while being run independently by enterprises themselves. Small enterprises under the ownership by all the people, commerce and service trades should generally adopt the method of contractual or rented operation by collectives or individuals. A small number of enterprises can, according to their needs, sell shares to and raise capital from staff and workers in order to closely integrate the economic returns of their enterprises with the interest of staff and workers. This way of doing things can only benefit the development of production. It will not change the nature of ownership by all the people.

Since the reform focusing on the system of contracted responsibilities with payment linked to output was carried out in our country's rural areas, great changes have taken place regarding collective ownership. This is a new breakthrough in the structure of the socialist ownership system. It broke with the old mode where, under collective ownership, operation, labor and distribution had to be carried out collectively. Now the household operation has been introduced into the cooperative economy. The diversified system of household contracting, with payment linked to output, in which unified leadership and decentralized management are integrated, has formed a new structure linking many publicly-owned means of production with some privately-owned means of production, integrating planned guidance with independent operation. With specialized households and new economic combines springing up in large numbers, new vertical, horizontal, flexible and multilevel economic cooperative organizations, including joint-stock cooperatives, are also surfacing. The new cooperative economy has broken through the unitary mode of collective ownership, and is showing great vitality.

## The Integration of Socialist Commodity Economy and Multilevel Ownership Systems and Their Mutual Promotion

The socialist commodity economy and the multilevel ownership structure are closely linked. They integrate, promote, and complement. They are cause and effect with each other.

A commodity economy existing in a socialist society is both inevitable and indispensable and is due to the development of social productive forces and the structure of social ownership. There are various economic compositions and operational modes under socialism. Ownership by all the people, collective ownership, and individual ownership all provide different means of production and products. Among enterprises under the system of ownership by all the people, although there is not a question of different ownership, there is a question of different operational rights. These enterprises are all run on their own, responsible for their own profit or loss. But they are relatively independent economic entities. Though they appear to have similar fundamental interests, they also have individual economic interests. These are not just the objective conditions for the existence of a commodity economy, but rather necessary conditions for our country's socialist economy if it is to be full of vitality. Within an economic entity, labor can be directly measured either by time spent (or work done); equal pay is for equal work. However, product exchanges among different economic entities cannot be measured directly in labor time. They must be changed instead into equivalent labor time. In other words, value must equal value. Only in this way can we do a good job of regulating mutual material interests among economic entities and mobilize positive factors in every quarter. Thus, it can be seen that the multilevel character of the socialist ownership system and the inevitability of separating ownership from operational rights are the inherent objective economic conditions that are needed for a commodity economy.

Conversely, we can see that only a vigorously developing commodity economy will enable social productive forces to be developed fully and the multilevel structure of socialist ownership system to flourish and become prosperous. We did not understand before that a socialist planned economy must go through the developed commodity economy stage before reaching a product economy. We did not understand the essential difference between a socialist commodity economy and a capitalist commodity economy. Consequently, we regarded the commodity economy as something incompatible with socialism. We always tried to surpass the advanced commodity economy stage, with the result that we mistook the natural economy for a product economy. We looked upon being backward as being advanced, thus entering into a closed and backward blind alley and seriously hampering the development of productive forces. Only by fully developing the commodity economy can we advance the cause of socialist modernization to victory.

## Upholding the Multilevel Ownership System in Which Ownership by All the People Plays a Leading Role Means Upholding the Socialist Orientation

Upholding various economic forms and operational modes and upholding and developing a planned commodity economy is the only way for our socialist country to be prosperous and powerful and for our people to be welloff and happy. This is also an important guiding ideology for carrying out our reform of the economic structure.

All forms of ownership are determined by the development of social productive forces. Under present conditions in our country, where the development of social-productive forces is multilevel and unbalanced, ownership by all the people, collective ownership and individual economy all have irreplaceable roles, and their own superiorities. However, viewing the situation as a whole, we must recognize that in our transformation of private ownership of means of production, ownership by all the people and collective ownership in our country were established long ago. Moreover, after going through developments and trials for three decades, these have become the foundation of our country's socialist economic system and the fundamental embodiment and source of the superiority of the socialist system. If we do not develop a clear understanding of this, we will lose our socialist orientation.

Under socialism's public ownership system, a leading role is played by those people who focus on modernized, key enterprises. This is the foundation and pillar of the building of socialism, and is in the interests of all the people. It benefits the whole society. Without ownership by all the people, we cannot highly develop science and productive forces with roots in high technology, nor can we constantly meet the ever increasing material and cultural demands of the society as a whole, achieve a system of planned commodity economy, or develop from the elementary to advanced stage of socialism. Only by so doing will we be able to move into communist ownership by all the people. Consolidating and developing the economy under socialist ownership by all the people and making it full of vitality and vigor are precisely the central tasks in our present reform of the economic structure.

CSO: 4006/749

NATIONAL POLICY AND ISSUES

RURAL INDUSTRY RESTRUCTURING SHOWS RESULTS

OW050835 Beijing XINHUA Domestic Service in Chinese 0849 GMT 27 Jun 85

/Text/ Beijing, 27 Jun (XINHUA)--According to data provided by the State Statistical Bureau early this month, the restructuring of China's rural industry in the past 6 years has yielded initial results. However, there are still irrational elements in the structure which need to be corrected with more effort. One aspect in particular which should not be overlooked in the current restructuring is how to maintain a steady increase in grain production.

The successful restructuring of China's rural economy since the 3d Plenary Session of the 11th CPC Central Committee has brought about an allround development in the rural economy. Based on constant prices, the total output value of China's rural society for 1984 increased 18.6 percent compared with 1983, and around 80 percent compared with 1978, at an average annual increase of 10.3 percent.

Constant development in the rural economy has led to noteworthy changes in its structure.

1. In the structure of crop production, the proportion of grain crops has declined, while that of cash crops has increased. In the past 6 years, the overall crop arrangement has undergone extensive readjustment. Grain production has increased 205.1 billion jin. Cash crops have developed even faster. In 1984, the proportion of grain crops' output value overall dropped to 66.2 from 76.7 percent in 1978, while that of cash crops increased to 20.6 from 11.9 percent. There were also increases in the proportion of output value in vegetables and other crops.

2. In the structure of agriculture (including forestry, animal husbandry, sideline products and fisher), the proportion of crop production has dropped, and that of forestry, animal husbandry, sideline products and fishery production have increased. In 1984, the proportion of crop output value in the total agricultural figure decreased to 68.6 from 76.7 percent in 1978. The proportion of the combined output value of forestry, animal husbandry, sideline products and fishery rose to 31.4 from 23.3 percent in 1978.

3. In the entire rural industrial sphere, the proportion of agriculture has dipped, and that of industry, construction business, transportation and commerce

have grown. In 1984, the proportion of total agricultural output value of rural industry, construction business, transportation and commerce went up to 36.8 from 30.5 percent in 1978.

The improvement in rural industrial concerns and allround development of the rural economy has been an important factor behind the improvement in the living standards of the people, both in the urban and rural areas, and the development of the national economy.

--The supply of agricultural products has increased. In 1984, the average supply of grain for the entire population reached 791 jin per head, up 24.2 percent compared with 1978. The per capita supply of other principal agricultural products also registered considerable increases. The total social purchase of agricultural and sideline products reached 144 billion yuan in 1984. This represented an increase 1.6 times 1978. After deduction of the price factor, it still showed an increase of 68 percent. There were more than 100 percent increases in the purchase of grain, cotton, edible vegetable oil, beef, mutton, fresh eggs, fowl and beet. Increases were also considerable in the purchase of tea, sugarcane, and other agricultural products.

--The supply of raw materials was more abundant for light industry, contributing to a fairly fast development in light industry. The output value (calculated on the basis of constant price for 1980) of the light industry sectors in China depending on agricultural products for raw materials, reached 237.1 billion yuan, up 92.7 percent compared with 1978, at an annual increase of 11.6 percent.

--Economic results in agriculture showed much improvement, and income for the peasants increased by a large margin. In 1984, the proportion of all the rural economy expenses in total income dropped five percent compared with 1978. The proportion of net income went up to 65.2 from 60.2 percent. The per capita net income of rural families jumped to 355 from 134 yuan in 1978, a 1.6-fold increase.

--More funds were accumulated for the state and the collective. In 1984, the amount of taxes paid to the state by various economic organizations in the rural areas reached 14.1 billion yuan, 1.3 times 1978. Accumulation for the collective and the individual also increased considerably. Currently, the annual per capita expenditure for peasants in the procurement of fixed assets is 16.9 yuan. Profits made by village and town enterprises in 1984 reached 12.9 billion yuan, most of which were used to expand production.

The above figures make it clear that the restructuring of China's rural industry has achieved initial results. The relative proportions between various sectors of the rural economy are gradually being rationalized. Nevertheless, further adjustments are needed to correct the remaining irrational setups in rural industry, as reflected in China's long practice of giving little weight to forestry, animal husbandry, and fishery, and in underdeveloped industry, construction business, transportation, and commerce. For instance, the output value of the rural transportation sector accounted for only 2.6 percent of the total output value of the rural society. The proportion of the output value of rural commerce took 6 years to creep from 3.3 percent to 3.7 percent.

PROVINCIAL AFFAIRS

TIANJIN ARTICLE ON CURRENT ECONOMIC SITUATION

SK160330 Tianjin TIANJIN RIBAO in Chinese 21 May 85 p 1

[Article by Rui Yu [3943 1342]: "Correctly Observe and Analyze the Current Economic Situation"]

[Text] Correctly appraising a situation is a task to be done prior to formulating lines, principles, and policies by a revolutionary political party. In order to formulate correct guidance concerning the current economic construction, we must also gain a clear understanding of the current economic situation. However, it is very easy for us to gain an overall understanding and correct appraisal on the current situation due to intricate economic phenomenon and because we are engaging in the tasks of conducting reforms and enforcing the open-door policy. So how can we conduct a scientific analysis of the situation? The answer to this question is that we should not only gain an overall understanding of the actual situation in economic construction, but also should be good at applying the basic viewpoints and methods of Marxism to conduct a scientific analysis of various factors prevailing in the economic situation.

The current basic situation of our country's economy shows a large-scale increase in industrial and agricultural production, an increase in economic returns, the steady improvement of the people's livelihood, and marked achievements in economic work. However, there are also a number of problems, such as those of energy resources and transportation, the strained supply of raw materials, and the newly emerging malpractices that cropped up last winter and this spring. Under this situation, if we fail to apply the viewpoint and methods of Marxism to analyze these basic facts, it will be very hard for us to correctly appraise the situation, and it will be easy to gain a one-sided understanding.

How can we analyze the situation? The first answer to the question is that efforts should be made to draw a clear demarcation line between nonessentials and essentials. Under the situation in which both achievements and problems exist, we should first discern those that are in the main--that occupy the guiding position in the situation as a whole. If we gain a clear understanding in this regard, it will be easy for us to discover that our country has basically brought about great changes and scored tremendous achievements in economic construction despite all sorts of problems that have cropped up in

economic work. For example, in 1984 Tianjin Municipality showed an 11.5 percent increase in total industrial and agricultural output value over the 1983 figure, and an 8 percent increase in national income, topping the highest rates reported over the past few years in this regard. The municipal wages total for staff members and workers showed a 26.6 percent increase over the 1983 figure. The per-capita income of urban people for living expenses showed a 19.3 percent increase, except for factors caused by price hikes, over the 1983 figure. The per-peasant net income reached 505 yuan, topping the previous high. Comparing these major achievements with certain existing problems, it is very easy for us to clearly discern the difference between nonessentials and essentials.

The second answer to the question is that efforts should be made to set a clear demarcation line between phenomenon and essence. Generally speaking, a fast or slow rate in developing the economy is the major indicator of a favorable or unfavorable situation in the economy. However, the rate is not the sole criterion in developing the economy, and we should also look into the reasons that have resulted in the rate. In a sense, the rate of economic development represents a phenomenon, and the reasons that have resulted in the speed represent the essence. The "Great Leap Forward" of 1958 was a product of the "leftist" guiding ideology. Though the rate in developing the economy was very high, and it did not bring about a favorable economic situation. On the contrary, in carrying out economic readjustment, possibly a lower rate of economic development would not represent an unfavorable economic situation. By taking this viewpoint in analyzing the current economic situation throughout the country, we will be able to discern that the current economic development in the country is the outcome of our having eliminated the longstanding "leftist" guiding ideology and having straightened out the relations among economic sectors in line with objective laws in developing an economy with Chinese characteristics. The major proportional relations among various sectors of the country's economy, such as the proportion between industry and agriculture, between heavy industry and light industry, and between consumption and accumulation, has become harmonious day by day. The proportion between them has mutually increased due to mutual promotion. This is the desire harbored by us for many years and also is work that has not been done for many years. This is also a factor that has decisive significance on developing the situation as a whole, and will certainly promote our country's economy to achieve steady, stable, and harmonious development and enable the country's economy to create a future of virtuous circulation.

The third answer to the question is that efforts should be made to conduct a concrete analysis of the current problems cropping up in economic work. We will certainly encounter some problems no matter when we begin to engage in our work and what we are engaged in. More problems and contradictions represent a normal phenomenon, because we are facing a great period of social changes. However, our current key task is to conduct a concrete analysis of these problems, to know their nature well, to determine whether they are temporary and solvable problems that have cropped up in the course of

transformation due to less experience, whether they are insoluble, whether they pertain to the economy itself, or whether they are matters concerning understanding. By no means should we be heavy-hearted on hearing about problems, or even be cowards in appraising the economic situation.

Judging from the current problems cropping up in the economy, some are actually connected with our work, such as those that result from our incomplete consideration to work and from our poor inspection work. We should learn a lesson from these problems. However, the overwhelming majority of these problems result from the course of transformation conducted due to less experience and from the question of understanding. The transformation we are engaging in is an extremely complicated undertaking that requires mass exploration and urges us to create something new, for which we have no models to follow. In conducting transformation as a whole, there will certainly be a large number of new situations and problems that we do not know of and are unexpected. Therefore, only by steadily studying and gradually conducting improvements through experiments can we gradually traverse a normal path. For example, to do away with the past rigid economic mold and to develop commodity production in a planned manner on the basis of public ownership, we must follow the law of value and enforce the principle of exchanging commodities at equal prices. Such a demand might enable some persons to harbor incorrect desires to go to extremes in seeking commodities and currency, and even to cause some incidents by violating the law. This requires that we conduct work in various fields in order to solve the problems, such as improving regulations, rules and systems, perfecting economic legislation, setting up a clear demarcation between various policies, and strictly implementing or enforcing party style and discipline. The task for fulfilling the above demands can only be carried out along with a steady and deepgoing drive of conducting reforms. Even if there are some problems that crop up in fulfilling the demands, it will not be difficult for us to solve them. For example, several evil practices that emerged at the end of 1984 were basically and rapidly checked. The 158 enterprises run by the party and government organs throughout the municipality severed off relations with these organs. The municipal CPC Committee and the municipal people's government recently conducted a price inspection of over 720 households and 5,840 commodities and found that 74 households raised their product prices arbitrarily, which were corrected immediately and dealt with strictly. Judging from these problems, those cropping up in economic work chiefly result from the course of changing the backward old mold into a new one. Only by doing a good job in conducting our work can we overcome these problems. Of problems concerning understanding, some result from the conservative ideology and the force of habit, and some result from ignorance of the situation as a whole. Some people who frown on or do not know well the new things cropping up in the drive for conducting reforms also have their way of looking at the situation affected.

At present, an important task for party organizations at all levels is to lead the cadres and the masses to be good at applying the viewpoint and methods of Marxism to correctly observe and analyze the situation. By adopting viewpoints and methods in a scientific manner, it will not be difficult for us to reach a conclusion on "the current excellent situation of the economy."

PROVINCIAL AFFAIRS

ANHUI GOVERNOR ON RUNNING URBAN ENTERPRISES

OW290853 Hefei Anhui Provincial Service in Mandarin 1100 GMT 27 Jun 85

/Excerpts/ The Anhui Provincial People's Government held a provicewide telephone meeting yesterday, calling for efforts to take measures, and tackle problems under new circumstances for the sustained development of village and town enterprises. Vice Governor Meng Fulin addre-sed the telephone meeting. He said: An extremely favorable situation has prevailed in the province in developing village and town enterprises since the beginning of this year. However, we must fully realize the new situation and problems facing such enterprises. In dealing with such situations and problems, we must adopt some new measures as follows:

1. We must strengthen macroguidance. Leading cadres at all levels must exert even greater efforts to conduct investigations and study, and help village and town enterprises work out plans to develop, while trying to strike an overall balance.
2. We must pay attention to running these enterprises, individually by a single household, or jointly by several households. Currently, peasants in the province have a great deal of money in their pockets. A single household or several households should be allowed to run an enterprise or enterprises. In this manner, the peasant's money will be fully utilized, and the problem of having not enough money to run village and town enterprises can be readily solved.
3. We must improve our services. We must help village and town enterprises develop financial resources, solve problems in raw material supplies, and carry out major financial checkups.
4. We must further strengthen our leadership, sum up our experience, and earnestly study measures to tackle existing problems, so that they can be readily solved. In conclusion, Governor Wang Yuzhao pointed out at the meeting: To develop village and town enterprises is of strategic importance in invigorating Anhui's economy. The guiding thought in developing village and town enterprises is to proceed from reality, do things within the limits of our own resources, pay attention to practical results and make steady progress.

CSO: 4006/749

PROVINCIAL AFFAIRS

SHANGHAI'S RUI XINGWEN ADDRESSES URBAN PLANNERS

OW120255 Shanghai City Service in Mandarin 0100 GMT 7 Jul 85

[Text] A 2-day Shanghai municipal urban and rural construction planning work meeting ended on 6 July. Rui Xingwen, secretary of the municipal party committee, spoke at the meeting. He said: Current municipal construction work should be focused on improving the infrastructure, providing a better investment environment, and raising the quality of the municipality. In carrying out urban construction, it is necessary to pay attention to mapping out an overall plan, considering both long-range and immediate plans, making immediate plans serve long-range purposes, and building a complete set of facilities in stages, by groups, and in order of priority.

Rui Xingwen also called for concentration of limited funds and resources on solving such urgent problems as housing, transportation, and pollution. It is necessary to go all out to systematically solve the problems in the order of priority, and strive for a marked improvement in Shanghai's urban construction during the Seventh 5-Year Plan.

Mayor Wang Daohan made a summing-up speech at the meeting yesterday. He said: Urban construction planning work is a matter of prime importance. The current meeting has given strong impetus to urban construction planning work, by adopting a preliminary planning outline and studying reforms in the planning system, thereby achieving our anticipated goals. The meeting has also decided to adapt Shanghai's urban construction to the needs of opening to the outside world, and developing an open domestic economy, by vigorously promoting tertiary industry, and bringing into full play the large city's multipurpose role. In order to ease congestion in the old district, rationally readjust industrial patterns, and improve the urban environment, departments concerned should concentrate on overall, regional and systematic planning in the municipality, and formulating such laws as the land administrative law and the law for government relocation of institutions. In arranging local financial resources, it is necessary, primarily, to, ensure the needs of urban infrastructural construction, and raise funds through various channels to mobilize forces in various quarters, speed up urban construction, and complete preparations in good time. Jiang Zemin, deputy secretary of the municipal party committee, and Ni Tianzeng, vice mayor, attended the meeting.

CSO: 4006/762

PROVINCIAL AFFAIRS

BRIEFS

W. CHINA ECONOMIC INFORMATION ASSOCIATION--A west China cities Economic Information Association, organized by 18 western China cities, was set up in Lanzhou on 25 July. This association has been set up in accordance with the resolution of the Council of the All-China Economic Information Network for Large and Medium Cities on stepping up economic information work. Composed of cities in seven western provinces and autonomous regions including Shaanxi, Gansu, Qinghai, and Nei Monggol, it is a horizontal organization for exploiting, exchanging, and passing on economic and technological information. The work of this association will facilitate speeding up the collection, transmission, and feedback of economic information, and gradually turn economic information work in western Chinese cities from a scattered to a joint effort, in preparation for developing the western regions and accomplishing the strategic shift of focus in economic construction in these regions. At the first meeting of the council of the association on 25 July, Lanzhou City was chosen as the council's headquarters. [Text] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 25 Jul 85 HK]

JIANGXI RURAL ENTERPRISE INCOME--In the first 4 months of this year, Jiangxi's villages and town enterprises registered a total income of 858.31 million yuan, 85.5 percent above the same period last year. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 19 Jun 85 OW]

HENAN'S INDUSTRIAL OUTPUT VALUE--According to the provincial statistics bureau, in the first half of this year, the province's industrial enterprises have fulfilled a gross output value totaling more than 15.7 billion yuan, an increase of 28.1 percent over the same period last year, or fulfilling 54.2 percent of this year's assigned target. [Summary] [Zhengzhou Henan Provincial Service in Mandarin 1400 GMT 5 Jul 85 HK]

GUANGDONG INDUSTRIAL PRODUCTION INCREASES--In the first half of this year, Guangdong Province's industrial output value, profits, and taxes simultaneously increased. The province changed the situation in which the output value increased but profits and taxes did not increase much or even dropped in the past 2 years. According to statistics compiled by departments concerned, the province's industrial output value in the first half of this year was over 23.16 billion yuan, an increase of 24.7 percent over the same period last year; and profits made and profits and taxes submitted to the state in

the first half of this year were respectively 26.7 percent and 20.9 percent more than in the corresponding period last year. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 10 Jul 85 HK]

QINGHAI INDUSTRIAL PRODUCTION INCREASES--According to statistics compiled by the provincial Statistics Bureau, Qinghai Province's gross industrial output value in the first half of this year was 23 percent more than in the same period last year and was at an all-time high. Output of cigarettes, internal combustion engines, motor vehicles, motor vehicle accessories, machine tools, cement, and washing powder was relatively large. [Summary] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 10 Jul 85 HK]

CSO: 4006/817

ECONOMIC DEVELOPMENT ZONES

BRIEFS

ECONOMIC ZONE MEETING ENDS--The first coordination meeting on Shanghai Economic Zone concluded on 1 July in Jinggangshan City, Jiangxi Province. The meeting was sponsored by the State Council's Shanghai Economic Zone Planning Office. Attending the meeting were 500 representatives from the 4 provinces Jiangsu, Zhejiang, Anhui, and Jiangxi and 1 municipality Shanghai covered by this economic zone, from Shandong and Hubei, and from the central departments, commissions, and offices concerned. /passage omitted/ As many as 1,718 cooperative projects were discussed, and contracts or agreements for them were signed at the meeting. Most of them require small investments, give quick returns, and are very feasible. Of the contracts and agreements signed at the meeting, 251 involve imports into our province, while 61 are projects concerning our exports. /Excerpts/ /Hefei Anhui Provincial Service in Mandarin 1100 GMT 14 Jul 85 OW/

CSO: 4006/806

**ECONOMIC PLANNING****WANG SHENHAO ON SHANXI'S SEVENTH 5-YEAR PLAN**

HK180655 Taiyuan SHANXI RIBAO in Chinese 3 Jul 85 p 1

[Report: "The Fifth Shanxi Party Congress Holds Plenary Meeting; Comrade Wang Senhao Gives an Explanation on Behalf of the Fourth Provincial CPC Committee on the 'Outline (Draft) of Shanxi's National Economic and Social Development plan During the Seventh 5-Year Plan'"]

[Excerpts] The plenary meeting of the Fifth Congress of the Shanxi Provincial CPC Committee was held on the morning of 2 July.

Attending the meeting were 583 full members of the delegation to the Congress and 55 alternate members. Present as observers were 91 delegates.

On the rostrum were seated members of the presidium of the meeting.

Seated in the front rows were members of the Standing Committee of the presidium: Li Ligong, Wang Senhao, Wang Jiangong, Bai Qingcai, Lu Gongxun, Zhang Changzhen, Wu Dacai, Zhang Guangyou, Zhang Weiqing, Zhang Bangying, Wang Kewen, Ruan Bosheng, and Li Xiuren.

The executive chairmen of the meeting were Comrades Wang Jiangong, Lu Gongxun, and Wang Kewen. Comrade Wang Jiangong presided over the meeting.

On behalf of the 4th Provincial CPC Committee, Comrade Wang Senhao provided details on the "Shanxi Provincial Program (Draft) for National Economic and Social Development During the 'Seventh 5-Year Plan'." These details were divided into three parts: 1) On What Preceded the Presentation of the "Seventh 5-Year Program (Draft)"; 2) On Strategic Guidelines and Guiding Ideas; 3) On the "Seventh 5-Year" Objectives of Struggle and Focuses of Development.

On the "Seventh 5-Year" objectives of struggle and focuses of development, Comrade Wang Senhao said that the second part of the "Seventh 5-Year Program (Draft)" spelled out our province's main objectives of struggle during the period of the Seventh 5-Year Plan. These objectives of struggle are generally appropriate. The extent of growth for the main targets in the Seventh 5-Year Plan was lower than that in the period of the Sixth 5-Year Plan. The Sixth 5-Year Plan projected an annual increase of 10.9 percent in total industrial and agricultural output value. In the Seventh 5-Year Plan, an increase of 7.4

percent is called for. The Sixth 5-Year Plan projected an annual increase of 13.3 percent in national income. In the Seventh 5-Year Plan, an increase of 7.6 percent is called for. Such an arrangement not only allows the maintenance of quite a high rate of growth, making it possible to double total industrial and agricultural output value two years ahead of schedule, but also leaves appropriate room for maneuver. Concerning the people's life in the period of the Seventh 5-Year Plan, we call for an increase in gross national product per capita of around 1,000 yuan, a per capita consumption level of 450 yuan, an average wage of 1,300 yuan for workers and a per capita net income of 600 yuan for peasants, the latter target to be fought for by every means. These several targets, if realized, can enable the living standard of the people of our province to catch up with the average national level.

Of the targets in the Seventh 5-Year Plan, apart from the important overall target for total industrial and agricultural output value, we have treated national income and gross national product per capita as main indicators of economic growth. This is to say that we must gradually shift our attention in guiding economic work from a pure study of industrial and agricultural output value to an emphasis on the coordinated development of various sectors of the national economy and various industries.

Comrade Wang Senhao said: The "Seventh 5-Year Program (Draft)" calls for focusing on development in five respects: energy and communications, education, science, and technology; technical transformation; environmental and ecological balance protection; and helping poverty-ridden areas to change their features. This is called for in line with our province's strategic guideline of economic and social development and in light of the main weak links appearing in our province's national economic and social development in the period of the Sixth 5-Year Plan.

Many things need to be done in the period of the Seventh 5-Year Plan. But we must keep a hold on the main contradictions and pay attention to priorities. Otherwise, the use of equal strength in every case and the diffusion of financial, human, and material resources would halve the results of our efforts.

Comrade Wang Senhao provided concrete details on the five guiding ideas in the Seventh 5-Year Plan.

He said that we must turn Shanxi into an important energy base for heavy and chemical industries. This is dictated by the availability of resources in Shanxi and the state's energy needs for modernization. It is also a road to the development of Shanxi's own superior features and to wealth--a road that must be followed. Last year, more than one-third of our province's revenue and income not included in the budget came from coal and charcoal. From a long-term point of view, the development of the energy industry, heavy industry, and chemical industry will lead to booming economic growth for all of Shanxi and benefit the people of Shanxi. This is beyond a shadow of doubt. Now the problem is how to develop superior features, promote the strong points and avoid weaknesses, and do a better job of establishing an energy base

for the heavy and chemical industries. After several years of experience, we have gradually come to understand the following few points:

1. In building an energy base for the heavy and chemical industries, we must not only strengthen the mining and export of coal, develop the electric power industry and satisfy the state's energy needs for modernization but also further carry out the processing and transformation of coal and seek the greatest possible local absorption thereby turning superiority in resources into economic superiority. The way of processing and transforming coal is to develop three major materials industries, as pointed out by Comrade Hu Yaobang: 1) The ferrous and non-ferrous metal materials industry; 2) the chemical materials industry; 3) the construction materials industry. The aim is to turn Shanxi into an industrial base that centers on the coal industry while guiding the comprehensive development of the electric power, metallurgical, chemical, and construction materials industries.

2. In building an energy base for the heavy and chemical industries, we must energetically develop agriculture. Eighty percent of our province's population is in the countryside. Only with the rural economy developed and the peasants made rich can there be a solid foundation for an energy base for the heavy and chemical industries. And only in this way can our strategic goals be realized. To this end, we must continue paying close attention to grain production, maintaining the steady growth of grain output, readjusting the rural industrial structure, making fullest use of existing cultivable land, developing and controlling all deserted hills and areas, energetically developing town and township industries and stimulating the transformation of the rural economy in the direction of a developed commodity economy. Party and government leadership organs at all levels must more realistically help peasants think out more means to get rich and provide services for peasants in various fields.

3. In the period of the Seventh 5-Year Plan, we must earnestly carry out the CPC Central Committee's decision on the reform of the scientific and technical system and its decision on the reform of the educational system, strengthen the development of intellectual efforts, vigorously seek technical progress, and create proper conditions for the revitalization of our province's economy in the last 10 years of the century in regard to trained personnel and technology. It takes a long time to produce skilled personnel. We must have foresight and lose no chance to seek the proper development of education, so that our province's educational cause in the period of the Seventh 5-Year Plan can show relatively big growth.

4. In the period of the Seventh 5-Year Plan, we must properly handle the relations between pace and results, between accumulation and consumption, between immediate and long-term interests and between the development of production and the improvement of the people's livelihood. The amount of investment in fixed assets must be kept under control. There should be no loss of control. We must take into account our province's economy and the strain on society and maintain an overall balance between total social supplies and needs.

5. The period of the Seventh 5-Year Plan coincides with the important period of the fundamental completion of the economic reform centering on cities. The central link or the fundamental demand on the reform calls for strengthening the vitality of enterprises and especially large and medium-sized enterprises owned by all the people and for strengthening and improving macroeconomic control, regulation, and operation. The reform provides a guarantee for the realization of the Seventh 5-Year Plan and will surely make for the emancipation of new productive forces, stimulating the development of economic construction.

Elaborating on the "Shanxi Provincial Program (Draft) for National Economic and Social Development During the 'Seventh 5-Year Plan,'" Comrade Wang Senhao said: The report given by Comrade Li Ligong at the meeting on behalf of the Provincial CPC Committee spelled out the strategic guideline for our province's economic and social development. This means that we must resolutely uphold the spirit of the 12th Party National Congress; mobilize and organize the people throughout the province; make the most of the superior features of our province with its natural resources; put the emphasis on properly building an energy base for the heavy and chemical industries; energetically develop agriculture; pay close attention to two weak links--communications and transportation and education, science, and technology; guide and stimulate the harmonious development of the whole national economy and society; and achieve a quadrupling of total industrial and agricultural output value by the end of the century, so that the people throughout the province can get rich as quickly as possible and reach the level of being relatively well off. This strategic guideline was gradually made clear after a long period of practice and repeated discussions. Comrade Wang Senhao pointed out that in the last 15 years of this century, our province's economic and social development should be guided by this strategic guideline.

CSO: 4006/794

ECONOMIC PLANNING

JIANGXI'S BAI DONGCAI ECONOMIC MEETING

0W170305 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 14 Jul 85

[Excerpts] The Jiangxi Provincial Academy of Social Sciences and the Jiangxi People's Government's Economic Research Center held a meeting from 9 to 11 July to discuss the strategy for Jiangxi's economic development. More than 100 experts and scholars from economic theory and practical work departments in various parts of the province attended the meeting. Comrade Bai Dongcai also attended the meeting. Zhao Zengyi, chairman of the Jiangxi Provincial Advisory Commission, and Ni Xian, deputy secretary of the provincial CPC Committee and governor of Jiangxi, addressed the meeting.

Comrade Ni Xian said: It is absolutely necessary to study and map out a strategy for economic development because it is the precondition and foundation for invigorating Jiangxi's economy. To study and map out a strategy for economic development, it is necessary to apply the dialectics of Marxism. It is necessary to proceed from reality. Jiangxi Province has 28 million peasants. The peasants must have sufficient food to eat. When the peasants become well-off, there will be better conditions for developing Jiangxi's economy. I am for placing the emphasis on peasants.

Comrade Ni Xian called on the participants to conscientiously carry out the following three things: First, study and map out a plan for developing the poor old revolutionary areas. Second, pay attention to agriculture and study and work out a plan for readjusting the agricultural and economic structures in rural areas. Third, develop tourism.

Comrade Zhao Zengyi put forward two requirements for studying the economic development strategy:

1. Theory must be integrated with practical work, and theoreticians should link up with the personnel doing practical work.
2. Break away from traditional ideas that hinder economic development.

The meeting exchanged the achievements gained in the past few years in drawing up a strategy of Jiangxi's economic development.

CSO: 4006/817

ECONOMIC PLANNING

BEIJING MAYOR SEES NEED FOR MORE SHOPS, SERVICES

OW140802 Beijing XINHUA in English 0726 GMT 14 Jul 85

[Text] Beijing, 14 Jul (XINHUA)--More than 15,000 shops and service center were added in Beijing in the first half of this year, today's BEIJING DAILY reports.

This was three times last year's increase.

The paper also quotes Mayor Chen Xitong as telling a meeting yesterday that the service trade was still far from meeting the residents' needs.

The newly-opened enterprises include about 650 restaurants, some 700 hostels, inns and hotels with a total of 60,000 beds, and seven laundries.

The meeting, called by the municipal government, decided to open another 5,000 service centers and shops in the latter half of this year.

The meeting urged all the state-owned and collectively-owned enterprises as well as individuals to run more catering and other services.

CSO: 4020/295

ECONOMIC MANAGEMENT

GUANGMING RIBAO DISCUSSES USE OF ECONOMIC LEVERS

HK280539 Beijing GUANGMING RIBAO in Chinese 15 Jun 85 p 3

/Article by Ning Jizhe /1337 0679 0811/: "A View of the Comprehensive Application of the System of Economic Levers"/

/Text/ The comprehensive application of economic levers is an important subject in the reform of the economic structure and in macro-regulation and control. In this article I try to make a superficial analysis of this subject by applying a systematic and scientific method.

On the macro level, economic levers are the means and methods by which the state guides or regulates socioeconomic activities. They base their function on their internal power of response, which is derived from the internal movements of economic categories and laws. The relevant economic categories include currency, commodities, value, prices, taxation, credit, incomes and so on. The relevant economic laws include the laws governing material benefit, value, the planned development of the national economy, and distribution according to work.

Economic levers moving in the great system of the national economy having complicated internal relationships. The comprehensive application of economic levers, its process and its environment form the comprehensive regulatory system of economic levers. The system has three fundamental factors, namely, the state, those engaged in economic activities, and the essential factors of production. The state is the subject of the comprehensive application of economic levers. It can be divided into two administrative levels, namely, central and local. Those engaged in economic activities are the objects, or the direct targets, of the comprehensive application of economic levers; they consist of two kinds of economic units, enterprises and individuals. The essential factors of production are the indirect targets of the comprehensive application of economic levers; they consist of secondary factors, such as labor, capital, and natural resources. The basic link between the three fundamental factors of the system is that in comprehensively applying the economic levers, the state affects the material benefits of those engaged in economic activities, regulates the disposition of essential factors of production, and thus regulates the movement of the national economy. There are two relationships within the system--the relationship between the state and those engaged in economic activities and the relationship between those engaged in economic activities and the essential

factors of production. Those engaged in economic activities serve as an intermediate and dynamic link in the structural distribution of the system and their economic behavior directly affect the regulatory result of economic lever. The objective of the system is to ensure the coordinated, steady and rapid development of the national economy and to meet the needs of the people in their material and cultural lives. The function of the system is effective regulation of the economy, which specifically includes encouraging economic behavior, controlling the economic process and transmitting economic information. Its manifestations are: By comprehensively applying the economic levers, the state arouses the production operational initiative of those engaged in economic activities and promotes economic growth, coordinates the material benefits of those engaged in economic activities and affects their economic behavior so that changes in the economic process occur within the rational margin controlled by the state; and transmits economic information to those engaged in economic activities and carries out information feedback and exchange.

The comprehensive regulatory system of economic levers includes secondary regulatory systems, such as the price, taxation, credit and wage levers. The subject of the above levers is the state and their objects are respectively the commodity producers or consumers, taxpayers, money borrowers or depositors and wage earners. The scopes in which the various levers move are respectively commodity movement, stipulations on categories of tax and taxable items, deposit and credit operations, and distribution of income. The price lever is characterized by its flexibility, the taxation lever by its stability, the credit lever by its given flexibility and relative stability, and the wage lever by its direct link to benefits. Under the general objective of the system, each secondary system has its own specific objective. The specific objectives of the price, taxation, credit and wage levers are respectively as follows: To try as far as possible to make prices reflect the changes in social labor productivity and the relation between supply and demand and to preserve the relative stability of the general price level; to try as far as possible to increase the total tax revenue; to try as far as possible to attain the best economic results from the deposit and credit activities; and, on the basis of increased production, to gradually raise the wage level.

In the comprehensive regulatory system of economic levers, the essential production factors are controlled by economic behavior while the behavior of those engaged in economic activities are in turn controlled by the state's application of economic levers. Changes in the latter affects the former and thus controls the amount of essential production factors put into economic activities. Transmission of information within the system is a two-way traffic: The state releases information to those engaged in economic activities through economic levers while those engaged in economic activities, as well as the essential production factors, transmit information back to the state in the course of their movement. The flow of personnel, property and things is controlled by the flow of information. If there is no information feedback, it is an open-circuit control; otherwise, it is a close-circuit control. The results of the latter are better than the former.

When applying economic levers in a comprehensive way, we must pay attention to the following points:

1. It is necessary to study the economic categories and to observe the economic laws. The intention of an economic lever coincides with a corresponding economic category. To make clear the links and the differences between various economic levers; it is necessary to study the links and the differences between various economic categories. The economic levers are those guiding material benefit; the various economic levers respectively adopt certain forms of value; the objective of the comprehensive regulatory system of economic levers is consistent with the planned and proportionate growth of the national economy; and the economic levers usually regulate production, circulation and consumption through distribution. Therefore, the comprehensive regulatory system of economic levers must observe the laws governing material benefit, value, the planned development of the national economy and distribution according to work.
2. It is necessary to coordinate both the primary and the secondary systems and to bring their functions into play. There must be divisions of labor and coordination between the objective of the primary system and those of the secondary systems in order to form a rational system of objectives but the achievement of the secondary objectives must be subordinated to that of the primary objective. Attention must be paid to bringing into play the three specific word indistinct of the system, namely, encouragement, control, and transmission, in order to bring into full play the overall function of the system in regulating the economy. In accordance with the principle that a primary system is larger than the sum of secondary systems, it is necessary to set up a powerful management organization for the comprehensive application of economic levers.
3. It is necessary to invigorate the intermediate links and to study economic behavior. When applying economic levers in a comprehensive way, we must first grant enterprises decisionmaking powers in production and operation and allow those engaged in economic activities to possess a relatively independent economic power in order to invigorate the economic cells in their hundreds of millions; secondly, we must study the behaviors of those engaged in economic activities, particularly their reaction to the various steps taken by the state in applying the economic levers, and guide them in making rational decisions.
4. It is necessary to establish an information system. In exercising effective macro control, we should scientifically design the comprehensive application of economic levers and meticulously guide their operations. Therefore, it is necessary to unclog the channels through which the state releases information on economic levers so that the channels of information feedback from those engaged in economic activities to the state and the essential factors of production remain open, that the wishes of the state can be understood by the public as quickly as possible, and that information on specific economic activities can be promptly and accurately relayed to the state, making it possible for the state to promptly regulate the movement of economic levers according to the actual conditions.
5. It is necessary to integrate qualitative with quantitative analyses. When applying economic levers in a comprehensive way, we should conduct quantitative

analyses on the basis of qualitative analyses. It is first necessary to find out the crucial quantities reflecting the special features of various economic levers and their mutual links and then conduct optimal analyses, such as determining the most appropriate prices, the most preferential tax rates, the best interest rates, and the most rational rates of wage increase. Only by conducting quantitative analyses is it possible to formulate a scientific and practical plan for the comprehensive application of economic levers.

CSO: 4006/749

ECONOMIC MANAGEMENT

GANSU SECRETARY CALLS FOR DEVELOPING HEXI AREA

HK281307 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 27 Jun 85

/Text/ On 26 June, at a conference held by the provincial CPC committee and government on economic work in the Hexi area, Li Ziqi, secretary of the provincial CPC committee, pointed out that the Hexi area should get rich first and rapidly and should become the province's advanced area in developing the economy.

Comrade Li Ziqi said: The Hexi area has rapidly developed its economy over the past few years. People's livelihood has greatly been improved. Last year, the commodity grain supplied by the Hexi area accounted for 3/4 of the province's total commodity grain. The per capita income of peasants amounted to 322 yuan. The per capita income of peasants in Jiuquan Prefecture reached as high as 512 yuan. However, compared with advanced areas in the country, the people's life in the Hexi area is not rich at all. The people in some villages are still living a poor life. We are thus required to quicken the pace of making people rich.

What road should the Hexi area take in developing its economy? Comrade Li Ziqi held that Hexi should speed up the exploitation of natural resources, readjust the production structure, treat town and township enterprises and urban collective economy as a breakthrough in getting rich, and develop primary, secondary, and tertiary industries in a comprehensive way. For this is a road suited to the practical situation in the Hexi area and is a promising road for getting rich.

After making an analysis of Hexi's status quo and favorable conditions, Comrade Li Ziqi held that according to the Hexi area's economic superiority and potentialities, it is absolutely possible for Hexi to speed up economic development and become rich first. He said: Hexi's economic prosperity will create conditions and lay a foundation for the state to put the focus of construction on the northwest. Hexi must scale new heights, treat becoming rich first as its target for the near future, and hold extensive and mass discussions so that both high and low levels can establish the idea of going all out to become rich first.

CSO: 4006/749

ECONOMIC MANAGEMENT

WORKERS CONTRIBUTE IDEAS FOR ANSHAN RENOVATION

OW211110 Beijing XINHUA in English 1039 GMT 21 Jul 85

[Text] Beijing, 21 Jul (XINHUA)--The Anshan Iron and Steel Company, the biggest in China, adopted 6,000 innovation proposals submitted by its workers and staff members in the first five months of this year and brought in an additional 58 million yuan in profit, reported today's WORKERS' DAILY.

This is part of the drive to update the technology and equipment of this 50-year-old metallurgical enterprise.

Last year the company raised profits by 50 million yuan through technical renovation and this year, the revamping program has continued without interrupting the production.

Director of the medium-sized rolling mill Zhu Naiwen proposed to roll model 193 truck wheel ram with one whole steel bar. This reduced the losses by 50 percent and raised output by 20 percent, yielding an extra profit of one million yuan.

A turner proposed to use a new machine to polish the rough edges of the steel nails and remove cracks in them. It was immediately endorsed by the company authorities. More than 20 technicians and designers workers were assigned to help him. After two years of experiments, they succeeded. This will add an extra profit for two million yuan a year to the company.

Beginning from the 1950's, the company encouraged the workers to go in for technical innovations as part of the effort to get workers involved in technical progress of the old enterprise.

The 30,000 workers put forward 25,800 innovation proposals in the first five months of this year. The company and its affiliated factories all set up special organizations to handle these proposals and strive to put them into practice.

Workers would get material rewards or be promoted for their proposals adopted. Last September, Premier Zhao Ziyang visited the company and praised its method of renovation as a model for other aging enterprises.

CSO: 4020/295

ECONOMIC MANAGEMENT

SICHUAN MEETING ON ECONOMIC WORK IN HILLY AREAS

HK150325 Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 15 Jul 85

[Excerpts] In order to better implement the principle of providing appropriate guidance in light of local conditions, the provincial CPC committee held a conference in Nanchong on economic work in hilly areas from 10 to 14 July. Provincial CPC Committee Secretary Yang Rudai, standing committee member Xie Shijie, and Vice Governor Liu Chunfu attended and spoke.

The meeting pointed out: It is first necessary to handle correctly the relationship between grain and industrial crops. When readjusting the rural production structure, industrial crops such as rapeseed, cotton, and sugarcane should be developed under the premise of ensuring steady growth in grain production.

Second it is necessary to vigorously develop animal husbandry, forestry, and orchard cultivation. In animal husbandry the focus should be on raising pigs and breeding lean-meat porkers. Chickens, ducks, geese, and rabbits should also be vigorously developed. Milk or meat cattle and goats should be developed in light of local conditions.

Third, it is necessary to organize export of labor services.

Fourth, it is necessary to develop township and town enterprises in a sound way.

Fifth, it is necessary to develop energy and run communications well.

The meeting called on the leaders at all levels in the hilly areas to unswervingly carry out reform, strengthen their confidence, go deep into the grassroots, do more practical work, and lead the cadres and masses to make still greater contributions to the prosperity of the economy in the hilly areas.

CSO: 4006/817

ECONOMIC MANAGEMENT

BRIEFS

ANHUI STEEL TECHNOLOGY--China's first production line, using a new technology for directly processing slag from the blast furnace, was recently built in the No 1 Iron Smelting Plant of Anhui's Maanshan Iron and Steel Company. It is estimated that, by adopting the new technology for processing slag, the No 7 blast furnace of the Maanshan Iron and Steel Company can increase the furnace's annual profit by 300-400 percent, while reducing investment in equipment by more than a half. [Summary] [Hefei Anhui Provincial Service in Mandarin 1100 GMT 7 May 85 OW]

JIANGSU LIGHT INDUSTRIAL EXPORTS--Nanjing, 12 Jul (XINHUA)--The Jiangsu Provincial Light Industrial Products Export-Import Company has taken measures to encourage and assist enterprises and factories to produce goods for export. During the first 6 months of this year, the total volume of light industrial products exported by the province increased by 26.7 percent over the same period last year. Owing to the measures to increase exports and fire up enthusiasm in enterprises and factories to produce goods for export, the supply of export goods has increased significantly. During the first half of this year, the value of light industrial goods purchased by the province for exports increased by 20.7 percent over the same period of last year. [By reporter Liao Yuan] [Excerpts] [Beijing XINHUA Domestic Service in Chinese 0131 GMT 12 Jul 85 OW]

GANSU DIFFUSES PRODUCTION--Gansu Province has quickly developed its work of diffusing production and organizing joint operations and achieved good results. Up to the present, the province has carried out 192 such projects, whose output value accounts for 77.9 percent of the quota. Good results have been achieved in the majority of some 100 projects which diffused production and organized joint operations in enterprises. Contracts of the projects were signed last year. According to statistics, 192 projects have been basically put into operation. In addition, agreements for 27 projects which diffuse production and organize joint operations to be carried out by 42 units, have been reached and their contracts will be signed soon. An output value of over 70 million yuan can be created only from this one effort. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 4 Jul 85 HK]

RURAL JOINT ENTERPRISES--Beijing, 13 May (XINHUA)--China now has over 900,000 joint rural enterprises, founded with capital raised by the peasants themselves. These enterprises provide jobs for some 5.239 million peasants. Last year, net profits by these enterprises totaled 2,548 million yuan, accounting for 13.6 percent of the net profits of village and town enterprises. Tax paid to the state last year amounted to 558 million yuan, or 6.2 percent of that of all village and town enterprises in the country. Hebei Province is noted for the quickest development in such enterprises. Currently, it has more than 160,000 joint rural enterprises, with total capital of some 1 billion yuan, all raised by the peasants. They employ some 880,000 people, accounting for more than 19 percent of the total number of employees of village and town enterprises in the province. Last year, these enterprises earned as much as 829 million yuan.

/Summary/ /Beijing XINHUA Domestic Service in Chinese 0015 GMT 13 May 85/

CSO: 4006/749

FINANCE AND BANKING

ILLEGAL FOREIGN EXCHANGE ARBITRAGE INVESTIGATED

OW230644 Beijing XINHUA Domestic Service in Chinese 0858 GMT 21 Jul 85

[Excerpts] Beijing, 21 Jul (XINHUA)--The investigation team organized jointly by the Central Discipline Inspection Commission, the Auditing Administration, and the Ministry of Foreign Economic Relations and Trade recently investigated the case of covert buying and selling of foreign exchange and making illegal profit through arbitrage of foreign exchange received through the export of corn by the Liaoning Provincial Grain, Oil, and Food Import-Export Corporation and the Shenzhen City Commerce and Trade Company. The team made an investigation report and submitted it to the Central Discipline Inspection Commission, the Auditing Administration, and the Ministry of Foreign Economic Relations and Trade. The investigation report pointed out that it was a case of breaking the law by the units concerned in covert buying and selling of foreign exchange and making illegal profit through arbitrage of foreign exchange.

The investigation report said: The general plant of the Liaoning Provincial Grain, Oil, and Food Import-Export Corporation and the Shenzhen City Commerce and Trade Company jointly set up the Liaoshen Trading Company in Shenzhen. In late December 1984, Luo Yanzhang, who was sent by the general plant and assigned as manager of the Liaoshen Trading Company, learned in Shenzhen that Hong Kong's Zhongliao Company wanted to buy corn and offered U.S.\$103 per metric ton of corn.

On New Year's Day 1985, Luo Yanzhang returned to Dalian and made a report on the situation to Li Xiucheng, director of the general plant. Arrangements were made with the provincial grain, oil, and food import-export corporation for the corporation to be responsible for all work before loading the corn for shipment, the price was set at 350 yuan per metric ton. The Liaoshen Trading Company was responsible for paying the cost of the commodity, signing a contract with the foreign firm, and handling exchange settlements. The foreign exchange received from the corn export would be sold at a rate of 5.15 yuan for \$1, and the profit would be distributed as follows: The Liaoning Province Grain, Oil, and Food Import-Export Corporation would receive 60 percent, the general plant 20 percent, and the Shenzhen City Commerce and Trade Company 20 percent.

The investigation report pointed out: The Liaoning Provincial Grain, Oil, and Food Import-Export Corporation, the Shenzhen City Commerce and Trade Company, and the general plant colluded in intercepting foreign exchange received from the export of corn and having the Commerce and Trade Company in Shenzhen sell it for Chinese currency at a high rate in order to make illegal profits. This covert buying and selling of foreign exchange and making illegal profits through arbitrage of foreign exchange violated state regulations on the control of foreign exchange and disrupted the financial market. The Liaoning Provincial Grain, Oil, and Food Import-Export Corporation knew that it was improper to misuse export permits but still asked provincial leaders to share the responsibility. It knowingly committed mistakes and violated state regulations governing the control of export permits. The Liaoning Provincial Commission of Foreign Economic Relations and Trade, which is a department in charge of foreign trade work, agreed to the activities which ran counter to the party and state policy and directly supported and helped the corporation carry out illegal activities. This was dereliction of duty. Wang Jiyuan, advisor to the provincial government, ignored principles and concurred with their activities. As a leading member, he should be held responsible for the activities.

In order to implement law and discipline in a strict manner and educate the broad masses of cadres and those involved, the investigation report put forward opinions on handling the case in accordance with related policies.

CSO: 4006/809

FINANCE AND BANKING

PRC FORUM DISCUSSES STOCK MARKET, RAISING FUNDS

HK091601 Beijing GUANGMING RIBAO in Chinese 29 Jun 85 p 3

[*"Excerpts"* from speeches at the Seventh national forum on financial theories: *"Raising Funds From the Society and the Stock Market"*]

[Text] During discussions, the participating comrades had a lively discussion on the questions of whether raising funds from the society should be encouraged, whether it is possible to raise funds by means of issuing bonds and stock certificates by local authorities and enterprises, and whether the stock market should be opened. The following are some of their main ideas:

On the question of local authorities and enterprises collecting funds by themselves, some people hold that it is necessary to allow local authorities and enterprises to collect funds by themselves by issuing bonds and stock certificates. The main reasons for this are: 1) It is conducive to solving the problem of a lack of funds for developing town and township enterprises. 2) It is conducive to solving the problem of carrying out technological transformation in the old enterprises. 3) Issuing bonds and stock certificates to collect funds is more stable than savings deposits in bank, because no such problem as a sudden withdrawal of money will occur which may affect the market. Other people hold that the method of issuing bonds and stock certificates by local authorities and enterprises has more disadvantages than advantages and must not be adopted. Their main reasons are: 1) Raising funds by local authorities and enterprises is in essence competition with banks for savings deposits, which will naturally weaken the regulatory function of the banks. It is unfavorable for the management and control in a macroeconomic sense. 2) It will play a role of "adding fuel to the flames" in expanding the issuance of money and make the supply of the means of production more insufficient. 3) As a large portion of idle funds in Chinese society are consumption funds which will mainly be spent on consumer goods rather than the means of production, the investment using the funds raised by bonds and stock certificates will be unfavorable for balancing the supply and demand for materials.

On the question of whether to open the stock market, there are two sharply opposite views. Some comrades are in favor of opening the stock market, holding that it is a natural demand of the development of a commodity

economy, which is conducive to breaking the monopoly of the banks and the "big pot" in money supply and is even more conducive to collecting and using social funds in a more extensive way. They also hold that the phenomena of speculation and profiteering, which often occur in the capitalist society, will not occur in the socialist stock market, which is under the unified leadership of the state. Some other comrades hold that in our country it is not suitable to open the stock market. Their main reasons are: 1) The stock market is a product and essential element of a market economy. In our socialist country, no individual or enterprise should benefit from selling or buying securities. 2) The idle funds in our society can be regulated by the banks in a planned way; there is no need to open up other channels for raising funds. 3) Opening the stock market can easily result in excessively expansion of the scope of investment in fixed assets and irrational investment, which will deepen the contradictions between capital and materials. 4) Where the stock market exists, there must be speculation in securities. Opening the stock market can only weaken the roles of financial administration and banks in overall regulation. It can never help strengthen the control in a macroeconomic sense.

CSO: 4006/762

FINANCE AND BANKING

GANSU BANKS ISSUE CIRCULAR ON CONTROL OF INVESTMENT FUNDS

HK120927 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 10 Jul 85

[Text] Recently, five banks in the province jointly issued a circular, demanding that banks at all levels in the province earnestly implement the relevant regulations on controlling investment loans for fixed assets not covered by the plan and on the size of such loans.

The joint circular, which was issued by the Provincial People's Bank, the Industrial and Commercial Bank, the Agriculture Bank, the Construction Bank, and Bank of China Lanzhou Branch, pointed out that it is necessary to strictly control the 1985 plan for issuing loans for fixed assets. Banks will not issue loans to units buying equipment for single projects or for building single projects which involve an investment of less than 50,000 yuan and are not covered by the fixed assets investment plan. As for the construction of secondary and primary schools, the construction of hospitals, clinics, and cultural and sports centers under the county level, the construction of newly built and expanded highroads; the construction of urban roads, and new facilities of industry and communications, if they are not covered by the fixed assets investment plan and are carried out with raised funds, the problem of their funds should be solved according to relevant regulations and the banks will not issue loans. Loans issued by banks to town and township collective enterprises for buying equipment should be covered by fixed assets investment plans. No loans will be issued by banks to individual industrial and commercial operators for fixed assets. All professional banks should temporarily suspend the business of trust loans and investment. No departments and enterprises are allowed to exact investment loans from banks or use banks' circulating funds as the funds raised by themselves.

The circular stressed that the raised funds used in capital construction should be deposited to special accounts in construction banks half a year in advance and be appropriated under supervision.

CSO: 4006/762

FINANCE AND BANKING

PRC TO BOOST GOLD PRODUCTION BY RAISING PURCHASE PRICE

HK120315 Beijing CHINA DAILY in English 12 Jul 85 p 1

[By staff reporter Liu Dizhong]

[Text] China has set a new target for its gold industry to produce the treasured metal at an annual growth rate of 15 percent or more during the seventh 5 Year Plan period (1986-1990).

During the period, China will open 139 gold mines of varying capacities throughout the country which is rich in gold resources.

Meanwhile, the State has decided to raise the purchase price to a record 895.70 yuan per ounce in an attempt to encourage more people to mine gold.

By the end of June, China met 52.8 percent of this year's production quota, an increase of 9 percent over the same period last year.

In the past 10 years, China has substantially increased gold output--at an annual average growth rate of 10.2 percent.

The increase in gold output is partly due to the nationwide "gold rush" which started in 1975 when individuals and collectives were permitted to mine gold for the first time since liberation.

As of last month, more than 110,000 former farmers were involved in the gold fever, producing about half of the nation's gold output.

The State began raising the purchase price of gold from 487.60 yuan an ounce to 696.64 yuan last February. Now the price is to go up to 895.70 yuan (about \$312) an ounce--but only on gold mined by individuals and collectives, CHINA DAILY learned at a work meeting on gold production that opened yesterday in Beijing. Gold was trading on the world market at about \$314.50 an ounce.

The measure is taken partly to reduce the gap between domestic and world prices. This discrepancy has resulted in smuggling, a problem that has been particularly severe in Qinghai, Xinjiang and Gansu provinces in the west, Inner Mongolia and Hebei province in the north, Hunan, Hubei and Guangdong provinces in the south.

A smuggler apprehended in Baotou, the biggest industrial center in Inner Mongolia, confessed that he sneaked out 4,426 grams of gold over only a few days which he had bought at a price of 1,400-1,600 yuan an ounce.

Some gold miners are holding on to the gold they produced in hopes of selling it at higher prices. This encouraged smuggling activities, said an official of the China Gold Company, sponsor of the five-day work meeting.

According to the official, strict regulations on gold marketing are being jointly drawn up by the company and the People's Bank of China. It will come into force subject to the approval of the National People's Congress.

However, the official said, more flexible policies also will be adopted to encourage more rural people to mine gold. These include opening more gold resources to personal investors. All the gold mines which the state has no plan to explore in the near future will be offered to individuals. Peripheral seams in major State-owned mines also will be opened up to mining entrepreneurs.

The State will also provide technological and financial assistance to individual miners, the official said.

To reach the target set for the next five years, China will focus on tapping the production potential of the existing gold mines. Most State-owned mines are not up to their production capacity, he said.

"Raising annual production by 20 percent will be no problem if we improve our technology and management," he said.

The State is expected to offer 160 million yuan in loans annually to aid gold mine construction, up from 60 million yuan.

This is part of the nation's efforts to ease the financial shortage in its ambitious modernization program.

The nation's gold reserves in the first quarter of this year totalled 12.67 million ounces. At the same time, its foreign exchange reserves dropped by \$3.2 billion to \$11.3 billion.

Technological cooperation has been expanded between China and the United States, Canada, and the Netherlands for introducing modern equipment to promote the nation's gold production. Meanwhile, negotiations are underway for China to open gold mines in Guinea and Papua New Guinea, the official said.

CSO: 4020/292

FINANCE AND BANKING

GUIZHOU RAISES FUNDS FOR CAPITAL CONSTRUCTION

HK160613 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 12 Jul 85

[Text] With a view to supervising and controlling the scale of capital construction, departments concerned in the province have decided to take stock of the situation regarding the deposit and use of self-raised funds for capital construction.

The circular jointly issued by the provincial planning committee, the provincial people's bank, and the provincial construction bank said: Self-raised funds for capital construction must be strictly used in accordance with regulations of the State Council. They must be deposited with the construction bank as a special account half a year ahead of time and their dispersion must be supervised. Other banks are not allowed to withhold or directly accept the depositing or the dispersing of these funds. The construction bank must open a special account for self-raised funds deposited for capital construction as credit loans outside the plan.

The circular said: Beginning this year, the construction bank and affiliated organizations must establish the system of making special reports on the deposit and use of self-raised funds for capital construction and must report to the upper levels at a specified period the situation regarding the deposit and use of the self-raised funds for capital construction.

The circular also demands: The construction bank must assign special persons to be responsible for this work. In coordination with the construction bank, all prefectural, autonomous prefectural, and city CPC Committees and people's banks must do well in taking stock of the situation regarding the deposit and use of self-raised funds for capital construction.

CSO: 4006/762

FINANCE AND BANKING

HUNAN BANK NOTES BIG WITHDRAWALS FOR ADMINISTRATIVE FUNDS

HK150323 Changsha Hunan Provincial Service in Mandarin 1100 GMT 14 Jul 85

[Text] Li Hanjun, a staff member of the provincial industrial and commercial bank, recently wrote a letter to the radio station reporting that organs, PLA units, factories, mines, and other enterprises, units, and undertakings with accounts in the bank throughout the province withdrew some 587 million yuan in administrative expenditures from January to June, an increase of 254 million yuan--76.6 percent--over the same period last year. This state of affairs affects the state's efforts to withdraw currency from circulation and also increases the state's financial burden.

The letter says: There are three main reasons for this big increase in bank withdrawals for administrative expenditures: 1) The number of enterprises, undertakings, and other administrative organs and units has increased, and the base figure for administrative expenditures has increased correspondingly. 2) The enterprises have expanded their purchase and sales activities in production and circulation, with a corresponding increase in administrative expenditures of various categories such as travelling expenses. 3) After the State Council announced control figures for consumption funds, many enterprises, undertakings, and units decided to make use of a loophole by spending administrative funds for consumption purposes. They withdrew cash from the banks under pretexts such as keeping it in reserve for travelling expenses, and actually used it in increasing individual consumption funds such as wages and bonuses.

The letter proposes that the party and government organs at all levels, and especially the leading cadres, strengthen leadership over work concerning the administrative expenditures of their units. Financial, tax, bank, auditing, and other functional departments must closely cooperate in strengthening control and supervision over the administrative expenditures of all units. People who arbitrarily increase administrative expenditures in violation of the policies must be seriously investigated and dealt with.

CSO: 4006/762

FINANCE AND BANKING

BRIEFS

INCREASED DEPOSITS REPORTED--Beijing, July 19 (XINHUA)--Savings deposits in Chinese banks soared by almost 20.6 billion yuan to 142 billion yuan in the first six months of this year, today's "economic daily" reported. Banking officials were quoted as saying that new urban savings deposits increased by 19 percent to about 14.8 billion yuan and rural savings deposits by 13 percent to 5.7 billion yuan. They said the raising of interest rates by the People's Bank of China earlier this year had encouraged more people to open fixed-period deposit accounts running for a year or more. Three-quarters of the new savings deposits opened were fixed-period accounts. [Text] [Beijing XINHUA in English 1031 GMT 19 Jul 85]

CSO: 4020/292

MINERAL RESOURCES

VICE MINISTER ADDRESSES NATIONAL GOLD MEETING

OW141432 Beijing XINHUA Domestic Service in Chinese 1302 GMT 11 Jul 85

[Excerpts] Zhou Chuandian, vice minister of metallurgical industry, said at a national work conference on gold production today: Whether state or collective enterprise or even an individual, and regardless of the trade, department, and area, anyone who is capable of organizing mining operations will be allowed to engage in gold mining in any area where a gold ore deposit is found.

The vice minister said: In the past few years, the state has adopted the policy of subsidizing gold production, appropriating development funds, granting low-interest-rate loans, prorating foreign exchange earned, providing material supplies required, and awarding miners with commodities in short supply to encourage gold mining. This policy has played an important role in promoting gold production. Over the past decade, our country's gold output has grown at an annual rate of more than 10 percent. The annual growth rate of medium-sized and small gold mines run by various localities and of individual people's gold mining has been maintained at over 20 percent. The country's gold production has fulfilled the target set in the Sixth 5-Year Plan by 1 year ahead of schedule.

He said: Gold is a special product. Any collective or individual interested in gold mining must apply for a mining license at the local departments in charge of gold production. All gold (including products and semi-products) must be sold to the state on time; otherwise, mining by the violators will be banned. Anyone who engages in smuggling or speculation of gold will be prosecuted according to law.

CSO: 4006/762

MINERAL RESOURCES

BIGGEST RARE EARTH PRODUCTION BEGINS OPERATION

OW201516 Beijing XINHUA in English 1452 GMT 20 Jul 85

[Text] Hohhot, 20 Jul (XINHUA)--China's biggest production line for in-depth processing of rare earths went into operation early this month in Baotou, which has the world's largest rare earth deposit.

The production line, installed in the third rare earth plant of the Baotou Iron and Steel Complex, can separate seven different metals successively at one time from rare earths, thus raising the country's capacity to manufacture top-grade rare earth products.

For neodymium oxide only, the production line has raised the annual capacity of the plant from half a ton to 20 tons.

China ranks first in the world in recoverable deposits of rare earths and is second, after the United States, in production capacity.

CSO: 4020/295

INDUSTRY

BRIEFS

XINING'S INDUSTRIAL, COMMUNICATIONS OUTPUT--In the first half of this year, the gross industrial and communications output value fulfilled by Xining City totaled 203 million yuan, thereby accomplishing half of the city's assigned targets for this year in 6 months. The production of Xining's industrial and communications enterprises have been relatively stable this year. The output value has always been more than 15 percent above the same period last year. [Summary] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 5 Jul 85 HK]

GANSU INDUSTRIAL, COMMUNICATIONS PRODUCTION--The province has overfulfilled its industrial and communications production plan for the first half of this year. Its gross industrial output value for the first 6 months of this year amounted to 5.62 billion yuan, an increase of 16.52 percent over the same period of last year. Of the 35 principal products, the province has achieved large increases in the output of 28 products compared with that of the same period last year. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 8 Jul 85 HK]

XINJIANG INDUSTRIAL PRODUCTION--By 30 June, Xinjiang Region's output of iron was 120,000 tons; steel 98,000 tons; and rolled steel 80,000 tons, being 62, 61 and 57 percent of the annual quotas respectively. Output and economic results this year were much greater than in the same period last year. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 8 Jul 85 HK]

STEEL OUTPUT IN 1985--According to JINGJI XINXI BAO /ECONOMIC INFORMATION BULLETIN/, Li Dongye, minister of metallurgical industry, recently said: China's steel output will top 46 million tons this year. China's present steel output already ranks fourth in the world, behind only the USSR, Japan and the United States. /Text/ /Beijing Domestic Service in Mandarin 2230 GMT 8 Jun 85/

CSO: 4006/749

CONSTRUCTION

CAPITAL CONSTRUCTION PROCEEDS WELL IN FIRST HALF

OW251204 Beijing XINHUA in English 1045 GMT 25 Jul 85

[Text] Beijing, 25 Jul (XINHUA)--An investment of 9.2 billion yuan, or 45.8 percent of this year's planned amount, was poured into 169 state construction projects in the first half of this year, according to the State Planning Commission here today.

Workers on six petroleum projects drilled wells with a combined footage of 5.59 million meters, accounting for 63 percent of the annual quota. The total production capacity of these wells was more than 50 percent of the annual planned capacity.

Five of the 14 coal mines, which were planned to be completed this year, will go into operation in time.

By the end of June, four generator units have been put into operation and five into trial operation. Another 25 units the country planned for this year are being installed. They have a total capacity of 5.4 million kilowatts.

Other projects which will be completed within this year, include the Beijing-Wuhan-Guangzhou coaxial telecommunications cable, the new telephone office in Beijing, the rebuilding of the 1,900-km Qinghai-Tibet highway and the first-phase construction of the Baoshan Iron and Steel Works near Shanghai.

The secondphase construction of the coal wharf of Qinhuangdao harbor, with an annual hand capacity of 20 million tons, was completed in March this year.

CSO: 4020/301

CONSTRUCTION

BRIEFS

SHANGHAI CONSTRUCTION FOR XIZANG--With approval of the CPC Central Committee and the State Council, 12 of the 43 high-quality key construction projects built by nine provinces and municipalities in the country for Xizang had been completed ahead of schedule and put into use as of mid-July. The state has invested some 452 million yuan on these key projects as gifts for the 20th anniversary of the establishment of Xizang Autonomous Region. Of these projects, two have been undertaken by Shanghai. [Text] [Shanghai City Service in Mandarin 1100 GMT 19 Jul 85 OW]

CSO: 4006/809

DOMESTIC TRADE

LANZHOU CITY, 2 GANSU PREFECTURES SIGN COOPERATION PACT

HK120841 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 10 Jul 85

[Text] Yesterday morning [10 July] Gannan Zang autonomous prefecture, Linxia Hui autonomous prefecture and Lanzhou City signed an agreement on long-term economic and technological cooperation. It was stipulated in the agreement that the principle for economic and technological cooperation between the two autonomous prefectures and the city is that they should give full play to their own strong points and avoid weak points, carry out cooperation in various forms, benefit each other, pay attention to practical results, and develop jointly.

The major contents of the agreement for cooperation between the two autonomous prefectures and the city are: to give priority to developing in a planned way various economic combinations involving two or three parties; to adopt preferential policies toward and give facilities to each other to promote continuous expansion of economic and technological cooperations; to carry out various coordinations in goods supply on the premise of fulfilling state plan and to provide goods to each other; to exchange technology, talented people, and information in various forms; to irregularly exchange experiences in economic construction, the reform of the economic structure, economic management and other fields; and to encourage units and enterprises in the two autonomous prefectures and the city to independently discuss and sign agreements on economic and technological cooperation for single projects.

In the agreement, which was signed yesterday morning, the two autonomous prefectures and Lanzhou City also proposed an initial batch of 24 projects for concrete cooperation.

CSO: 4006/760

DOMESTIC TRADE

HEILONGJIANG-DALIAN COOPERATION BOOSTS ECONOMIC DEVELOPMENT

SK140411 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT  
12 Jul 85

[Text] Our province has made rapid progress in developing economic and trade cooperation with Dalian City, Liaoning Province. As of now, our province has established 20 offices in that city and has carried out more than 90 economic and technical cooperative items. All of this has served as an impetus in pushing forward the development of the province's economy.

Dalian, a famous port city, is an important window of the country for conducting economic and technical cooperation with foreign countries and trade exchanges. In 1979, the provincial Foreign Trade Department began to set up working bodies in the city. Over the past few years, a large number of prefectures and cities throughout the province have dispatched their personnel as agents to the city or have opened offices there, and the number of staff permanently stationed in the city has reached more than 500. In 1984, our province exported more than 200,000 tons of commodities and earned 100 million yuan in foreign exchanges.

Since Dalian has been assigned to be an open city, both governments of our province and the city have carried out various contacts and cooperation with multiple channels at all levels in accordance with the principle of mutual benefit and have signed some contracts on economic cooperation. Jixi City is endowed with abundant coal mines but is short of funds; thus, Dalian City invested 30 million yuan to help Jixi City open a coking plant on the mutual-benefit condition of supplying gas to Jixi City and coke to Dalian City.

As support for Dalian City in building an economic development zone in order to develop the province's economy, the provincial People's Government consulted with the departments concerned with regard to building the Ging-Gang hotel in Dalian City, which cost 66 million yuan, jointly invested by Daqing City, Heilongjiang Province, and Hong Kong.

In order to further make best use of the window in developing the economy and trade to accelerate the province's pace of enforcing the open-door policy and undertaking development, the provincial People's Government held a meeting in Dalian City on economic and technical cooperation between

the province and the city from 7 to 12 July. At the meeting, Du Xianzhong, secretary general of the provincial People's Government, and principal responsible comrades from various prefectures and cities briefed Dalian City on their local material resources and their expectant cooperative items. Wei Fuhai, mayor of Dalian City, also delivered a speech on the city's prevailing situation with regard to enforcing the open-door policy and building the development zone. Both sides exchanged opinions on future cooperative items and on issues of mutual interest.

CSO: 4006/760

**DOMESTIC TRADE**

**GUANGZHOU CONSUMERS' COMMITTEE SOLVES CASES**

OW171904 Beijing XINHUA in English 1635 GMT 17 Jul 85

[Text] Guangzhou, 17 Jul (XINHUA)—A woman who bought a low-quality watch over three years ago was given a new one.

This was a result of help from the Guangzhou Consumer's Committee set up last September, Wu Zhimin, the customer, said here today.

Wu's watch only worked for two months after she bought it from a shop. She asked the shop to change it for a good one, but the shop, goods dispatch unit and factory disclaimed all responsibility for it.

The case dragged on for three years and a half without result.

She could do nothing but write to the committee for help.

Ren Zhongxiang, president of the committee, said, since Guangzhou relaxed mandatory supplies of many commodities, cases of cheating consumers have been found.

Under such circumstances, the Guangzhou Consumers' Committee, a mass organization, was established to protect consumers.

The committee, headed by the Guangzhou Administration for Industry and Commerce, is composed of representatives from consumers and local organizations.

The committee is empowered to supervise industrial and commercial enterprises by the Guangzhou People's Government.

It has the right to examine and handle consumers' appeals about the quality of goods they buy, to ban sales of goods that do not meet the quality standards, to instruct manufacturers and departments concerned to compensate consumers who buy their low-quality goods and to submit serious cases to administrative or legal departments for settlement.

Since last September, the committee has received 1,086 appeals from consumers, and 765 were handled.

The committee also helps channel information between production units and consumers.

Not long ago, the committee checked 19 varieties of electric water boilers available on the market and found that only three varieties met the quality standards. It published the examination results while informing manufacturers. This prodded manufacturers to improve the quality of their products and protect consumers.

In addition to the Guangzhou Consumers' Committee, a similar committee was established in Harbin recently and more are to be set up in Beijing, Chongqing, Xian and Shenyang.

CSO: 4020/295

FOREIGN TRADE AND INVESTMENT

OPPORTUNITIES FOR EXPORTS IN 1985 DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 pp 5-7

[Article by Song Tao [2646 3447]: "Seize the Opportunity To Expand Exports"]

[Text] The word opportunity has a special significance in foreign trade. Taking full advantage of opportunities may result in greater returns, with lower costs while missing of forfeiting opportune moments may result in invisible losses which cannot be easily expressed in statistics.

At present, the domestic economic situation is excellent. The economic structural reform has brought about vitality. The policy of invigorating the domestic economy and opening up to the outside world has created excellent conditions and set forth objective demands for expanding exports.

First, since the 3d Plenum of the 11th CPC Central Committee, China has reaped bumper harvests of grain, cotton, oil-bearing crops and other major farm and sideline products in consecutive years. In 1984, the output of China's grain, cotton and oil-bearing crops reached 407.12 million, 6.077 million and 11.852 million tons respectively, up 5.1, 31.1 and 12.3 percent respectively as compared to the previous year. Given this condition, instead of letting surplus farm and sideline products become less desirable "relative surplus of reserves," we would be much better off if we find a new way, maintain an overall perspective, export surplus farm and sideline products in a timely manner, and win some room for maneuver on the broad stage of the world economy. Therefore, quickly expanding the exports of farm and sideline products is a pressing strategic task at present and for sometime to come. Its immediate significance is more outstanding today because we have reaped large-acreage bumper harvests and are unable to carry out large-scale comprehensive development and utilization of farm and sideline products.

Second, after the urban reform and a variety of other reforms that "seek foreign assistance and internal cooperation," the light and textile industries which mainly use farm and sideline products as raw materials urgently need to be updated and upgraded. They should improve product quality, increase variety and design and improve packing to enable themselves to enter the international market. This demand can be met generally in two ways: One is to increase the direct export volume of various light and textile products; another is to increase the value of export products through technology transfer

or other flexible forms of trade such as "three imports and one compensation," so as to achieve success with novelty (new products), quality (fine quality), speed (short production cycle and speedy delivery) and changes (varied specifications, varieties, models, designs and patterns). These are the new demands set forth by the trend of domestic production for foreign trade.

Judged by the overall situation of the world economy, after the 2-year-long global economic recovery, we probably should not be overly optimistic in predicting the future trend of the world economy. This is mainly because the huge budget deficits and the high interest rate policy of the United States-- which is considered the locomotive of world economic recovery-- have resulted in continuous high exchange rates, huge foreign trade deficits, suppressed investment demand and a lack of new projects in enterprises, and major unemployment. These consequences pose great potential dangers to the sharp contradiction between the inflationary fiscal policy and the tight monetary policy of the United States. In addition, a huge amount of floating foreign capital has been attracted to the United States because of the high interest rates and high exchange rates. However, we still cannot say whether this is good or bad because once the situation reverses, the rapid withdrawal of floating foreign capital is bound to have an unbearable impact on the U.S. economy and money market. Moreover, the rising trend of the U.S. dollar has made many industrial countries of West Europe suffer because in order to prevent large out flows of funds, they had no choice but to raise the interest rate which they had lowered to stimulate investment, invigorate the economy and reduce unemployment. At the same time, sharp increases in the exchange rate of the U.S. dollar have also increased the burden of debts on developing countries. In sum, many signs indicate that the U.S. economy is confronting numerous contradictions and dangers which cast an ominous shadow on the barely recovered economy of West Europe.

Therefore, some people think that there is ample reason to fear the appearance of next economic recession in 1986. According to a survey conducted by the National Alliance of Business of America among 363 economists in February 1985, 52 percent of the economists predicted that next economic recession will begin in 1986 and only 17 percent think the present economic growth will persist after 1987. In sum, no matter what, the year 1985 will present an opportunity for expanding exports that we must not squander.

According to estimates of the economic policy research department of the Bank of America, the annual growth rate of the world will be 3 percent this year. Affected by this, the general level of commodity prices will be up 9 percent. The prices of many commodities will rise steadily. Under such external world conditions, we must vigorously study countermeasures, make great efforts to explore various channels, try in all possible ways to take advantage of the opportunity presented by the still prosperous world market, organize the sources of goods and seize the opportune moment to strike a bargain. We should strive to do more business, expand exports and earn more foreign exchange before the next world economic recession occurs. Failing to complete export deals that can be completed before the world recession will undoubtedly mean losing a huge price differential. Therefore, now is an important moment to race against time, strive for beneficial results, and create more foreign exchange.

Meanwhile, a new trend has occurred in opening up to the outside world; that is, the open area is expanding gradually from the long belt of coastal areas to inland areas. This has opened up a new sphere of in-depth development and has created a good opportunity for us to expand exports and invigorate foreign economic relations and trade.

The State Council decided in January 1985 to designate the Chang Jiang and Zhu Jian deltas and the triangle of Xiamen, Zhangzhou and Quanzhou in southern Fujian as coastal open economic zones, thus providing a new multilevel setup for China's economic and social development strategy:

Shenzhen and the other three economic zones which were opened on a trial basis according to a decision made in July 1979 are considered one level.

The 14 coastal port cities between Dalian in the north and Beihai in the south as well as Hainan Island, which were opened later according to a decision made in April 1984, are considered another level.

The recently-opened two deltas and one triangle area are considered still another new level.

This new multilevel setup for opening to the outside world is aimed at using experiences gained in selected units to promote work in all areas and implementing the general "outward" strategy. Under the goal of developing exports and in the form of "export industry and agriculture," open economic zones will vigorously utilize foreign capital, import technology and accelerate the transformation and expansion of existing enterprises which produce goods for exports. They will make overall plans for expanding and building a group of new enterprises to produce commodities that are profitable and in short supply on the international market. This will enable them to take up the heavy historical responsibility of being the links of foreign economic relations, major import and export bases, the center of foreign assistance and internal cooperation and the focus of "internal and external radiation."

Therefore, after the new setup has been established to give us new "pulse," we should organize ourselves, and take expanding exports and invigorating all foreign economic and trade work as a demand for adapting to the new situation and as an important part of exploration and practice for gradually expanding open areas, from special economic zones to coastal open cities and economic zones and then to inland areas--namely from the long coastal zone to the hinterland. This has a direct bearing on the strategic plan of the CPC Central Committee and the overall situation and progress of the "four modernizations." It has promoted and set forth higher demands for foreign economic relations and trade as a whole.

Under this new historical condition, the only way to find our direction is to open up new spheres for exports, follow unbeaten tracks and, while drawing on the experiences of various countries, strive to restore and develop measures which prove to be effective in our practice and to explore new ways

to invigorate exports. For instance, we may consider signing purchase contracts for farm and sideline products with specialized households and contract groups before production. As for those townships and counties which are production bases for export farm and sideline products, long-term contracts for advanced purchases and guarantee sales are more appropriate. Foreign trade departments should supply them with some hot-selling and good-quality means of production and subsistence at home. This is de facto a limited degree of goods exchange. Its scope, variety, volume, amount and proportion should be discussed and specified in contracts. In open coastal areas, we suggest that grassroots foreign trade enterprises make joint investments and cooperate on a trial basis with grassroots enterprises of other localities and departments in establishing production bases and specialized factories, sharing risks and profits with them.

As far as industrial products--especially light industrial, textile, machinery and electronic export products--are concerned, we should actively use foreign funds to import technology, make overall plans for the scale of national technology transfer, and give full play to the advantages of open coastal areas such as superior location, better basic conditions for using foreign funds, and importing technology and better foundations for technological improvement. We should consider the technological transformation of old enterprises as an important measure for expanding exports. On this basis, we should extend to the hinterland, bring along inland areas, further expand exports and create a stronger foundation for the sources of goods. We should continue to expand the scale of imports for exports and combine processing of imported materials, assembling of imported parts, processing on order, compensatory trade and barter trade. While focusing on developing various light industrial and textile products for exports, we should pay special attention to vigorously developing the products of food and fodder processing industries for exports. We should use the form of "export industry and agriculture" to solve problems once and for all in regard to raw and auxiliary materials, processing techniques, packing and decoration, and promote this promising industry. In addition, we have great potential for exporting small complete sets of equipment, expensive furs and hides, silk, cotton and flax clothing, fresh water prawns and eels, ceramics, drawwork and deep-sea aquatic products. There is a wide field for us to explore and we can accomplish a lot in this regard.

In sum, current international and domestic circumstances are extremely conducive to expanding exports. We should seize the opportunity, face the challenge and raise the scale of exports to a new level this year.

12302  
CSO: 4006/732

FOREIGN TRADE AND INVESTMENT

WAYS TO IMPROVE NEGOTIATIONS WITH FOREIGNERS

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 p 21

[Article by Wang Nianzu [3769 1819 4371]: "How To Improve Our Ability To Negotiate with Foreign Businessmen"]

[Text] Although it has not been very long since it opened up to the outside world, China has already gained many experiences. Many obstacles of the past are now gradually diminishing and many detours can also be avoided in the future in further opening up to the outside world. In order to improve China's ability to negotiate with foreign businessmen and make foreign things better serve China, I hereby make five concrete suggestions:

1. Internal negotiations:

Internal negotiations should be a prelude--a precondition--for negotiations with foreigners. If we are not clear about our goals or if our internal opinions differ substantially, it will be very difficult to grasp main points and reach agreements in negotiations with foreign businessmen. Instead, we would work to no avail and cause losses to both parties. On the contrary, if we have a well-thought-out plan, not only will we be unified in dealing with foreigners, but we will also be able to authorize special responsible persons to clinch a deal within a short time.

2. Style of negotiations:

Many foreign businessmen who have had dealings with China have the following four opinions:

- 1) When negotiating with China, they hope they can find somebody who is willing to take responsibility and is capable of clinching a deal. They do not want people who need to ask for instructions in everything and are afraid of making mistakes in every step.
- 2) When foreign businessmen ask a question or make a request, they expect some kind of an answer. We should not refuse to reply or ignore them because we have difficulties, for fear of their discontent or because we feel embarrassed to give them a direct answer.

3) Foreign businessmen expect us to keep the business secrets such as quoted prices of some commodities they divulge during negotiations and not give them away to their rivals.

4) We should request that foreign businessmen provide data when they come to negotiate with China. Foreign businessmen hope that we give consideration to their production cost, especially the valuable time of their managerial and technical personnel, when we go abroad on a tour of investigation.

### 3. Initiative in negotiations:

Some foreign businessmen have very little real power. They are only trying to fish in troubled waters and are not worth spending energy to deal with. In addition to conducting detailed background investigations of foreign businessmen, another way to improve this situation is to select foreign businessmen of outstanding reputation in every sector and project, and contact them for negotiation on our own initiative. It can save trouble and establish good long-term relations to avoid suffering big losses.

### 4. Use foreign experts:

Foreign experts can make greater and more concrete contributions to China in negotiations. Like many third world countries, China has begun in some areas to invite foreign experts to participate in a certain phase of fieldwork. Such arrangements should be popularized especially among foreign experts of Chinese origin.

### 5. Carefully sum up experiences:

China has convened quite a few meetings and forums concerning the work of opening up to the outside world. From now on, the contents of such meetings should be more specific and in greater detail. When summing up experiences, we should analyze and exchange information with each other on the process of negotiations, solutions and causes of success and failure for each item and project so as to improve our ability to conduct negotiations.

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FOREIGN TRADE AND INVESTMENT

QUESTIONS ON CHINA'S PATENT LAW ANSWERED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 pp 22-23

[Article by Dong Shizhong [5516 0013 1813]: "Questions and Answers Concerning Foreign Investors Investing in China--Part Three"]

[Text] Question: When will China's Patent Law be enforced?

Answer: On 12 March 1984 the NPC officially adopted China's first patent law which will be enforced beginning 1 April 1985. The departments concerned are now making all kinds of preparations for the implementation of the law including training patent agents and formulation detailed rules and regulations for the implementation of the Patent Law.

Question: What characteristics does China's Patent Law have?

Answer: China's Patent Law is formulated in light of China's actual conditions, international practice and experiences gained by foreign countries in implementing patent law. Its basic objective is to encourage inventions, spread their results, promote scientific and technological development, and accelerate China's modernization by protecting patent rights for inventions and creations. Foreign patent law experts praise it for its clear and simple language and its complete and thorough coverage of extremely profound contents. They say it is the only existing law that can thoroughly expound patent rights for inventions, utility models and external designs.

Question: How long is the protection period of patent rights according to China's Patent Law?

Answer: The duration of a patent right in China is neither the longest nor the shortest in the world. This is related to the development cycle of China's science and technology. The duration of a patent right for inventions is set for 15 years beginning from the date of application. The duration of a patent right for utility models and external designs is 5 years beginning from the date of application. Before the date of expiration, patentees may apply for a 3-year extension. For those patentees who enjoy priority, the duration of a patent right should be counted from the date they file applications in China.

Question: What are the objects of protection of China's Patent Law?

Answer: The second article of China's Patent Law stipulates: "In this law, inventions and creations refer to inventions, utility models and external designs."

Inventions are the main object of protection of China's Patent Law. Due to the fact that in China many technological renovations are carried out by the masses, utility models are also considered an object of protection by China's Patent Law in order to encourage small inventions. Utility models refer to new plans for the shape, structure and combination of products--what we call "small inventions"--such as machines, devices, spare parts and tools. Utility models are improvements of the external structure of a product. External designs refer to the decorative or artistic appearance of goods. They may refer to the shape, style, color of goods or a combination of the three. Such goods can be used in industrial production. This is why the term external designs is usually used with the words industrial products. External designs must be attached to a certain kind of good to receive the protection of the Patent Law. Without the material object, external designs are considered works of art that cannot be protected by the Patent Law. Therefore, when applying for a patent right to external designs, one must specify the kind of the goods on which the design is to be used. Only one external design can be used on one kind of good. By protecting external designs, China's Patent Law will be able to unify new products and their models and appearance and thereby promote the development of new products.

Question: What inventions and creations cannot be granted patent rights according to China's Patent Law?

Answer: These inventions and creations are divided in two categories: 1. inventions and creations violating laws, public interests or morals; 2. inventions restricted by state policies. Stipulations provided by the laws of all countries are about the same for the first category. As for the second category, in light of China's actual conditions, the 25th article of the Patent Law stipulates that the following inventions and creations are not to be granted patent rights:

1. Scientific discoveries
2. Rules and methods of intellectual activities
3. Methods for the diagnosis or treatment of diseases
4. Food, beverages and flavorings
5. Pharmaceutical products and substances obtained through chemical processes
6. Animal and plant varieties
7. Substances obtained through nuclear transformation

For methods used to manufacture products mentioned in item 4 to 6, patent rights may be granted according to the provisions of the Patent Law.

Question: Why are pharmaceutical products and substances obtained through chemical process not protected by China's Patent Law?

Answer: Pharmaceutical products concern human lives and health and therefore should be widely used without reservation. The nature of a patent is to monopolize the right of use. Prohibiting use by those who fail to pay patent fees can result in losses of health. At the same time, because China's medical industry is still relatively backward compared to the advanced countries of the world, granting patent to pharmaceutical products may enable foreign pharmaceutical products to monopolize China's market. This is harmful to the development of China's medical industry and inconsistent with the low-price policy China has adopted for pharmaceutical products. The reason for not granting chemical substances patent rights is that the world is mainly composed of chemical substances except for natural substances. If they were granted patent rights, almost everything in daily life would be made of patented substances, creating too much inconvenience. In addition, because China's chemical industry is still not very advanced, granting chemical substances patent rights would subject our chemical industry to the restrictions of foreign patents and adversely affect the development of our chemical industry.

Question: How does China's Patent Law protect patent rights?

Answer: China's Patent Law stipulates that for an infringing act consisting of exploiting a patent without patentee authorization, the patentee or the interested parties may ask patent control organs to handle the matter or take direct legal action in people's courts. The prescription for instituting litigation concerning the infringement of patent rights is 2 years from the date on which the patentee or the interested parties obtain or should have obtained knowledge of the infringing act. Patent control organs have the authority to order the infringer to stop infringement and compensate for the damage.

Question: What is the procedure for filing a patent application in China?

Answer: To file a patent application, the applicant must submit papers (including requests, description and claims) for application. After receiving such papers, the patent office will determine the date of filing. After filing an application for patent, the applicant may revise or withdraw the application. After receiving and conducting a preliminary examination of the application, if the patent control office determine that there is insufficient evidence, it may notify the applicant to amend it. Should the applicant fail to respond within 3 months, the application will be automatically withdrawn. Amendments submitted by the applicant should be published within 18 months after being examined and approved by the patent control office.

Within 3 years from the date of filing, the applicant should request the patent office to examine the substance of the application. If the applicant fails to make such a request within the time limit without any justified reason, the

application will be automatically withdrawn. After the examination of substance, if necessary, the patent office may reject the application or request the applicant to amend it. If the applicant fails to submit an amendment or reply to the reasons for rejection, the application will be automatically withdrawn. After examining the applicant's amendment or reply, the patent office will decide whether to accept or reject the application. After an application is rejected, the applicant may, within 3 months request that the patent office reexamine the application. After the reexamination, the patent office will decide whether to accept or reject the application. After the application is rejected for the second time, the applicant has the right within 3 months to take begin proceedings in people's courts. If the patent office cannot find any cause for rejection after examining the substance of an application, it should accept it, make a public announcement, and notify the applicant. Within 3 months from the date of public announcement of the application for a patent, anyone may, in accordance with the provisions of this law, file with the patent office an opposition to the said application. The applicant should respond to the opposition in writing within 3 months. If the applicant fails to do so without just cause, the application will be automatically withdrawn. If no opposition is filed or if the opposition is found unjustified in examination, the patent office should make a decision to grant the patent right, issue the patent certificate, register and announce the patent.

After a patent right is granted, anyone who thinks the grant is not in conformity with the provisions of the Patent Law may request a reexamination. The reexamination committee will decide whether to declare the patent right invalid or defend it. Anyone who is not satisfied with the decision of the reexamination committee may, within 3 months, take legal actions in people's courts.

Applications for the patent rights of utility models and external designs do not require the examination of substance. Public announcement will be made immediately after the examination. Decisions made by the patent reexamination committee concerning the reexamination of patent rights of utility models and external designs are final. Filing suits against decisions is not permitted.

Question: What treatment do foreigners enjoy according to China's Patent Law?

Answer: Foreigners and Chinese citizens are treated equally in applying for patent rights in accordance with the principle of mutual benefit and international practice in China. Those inventions and creations which meet the requirements of China's Patent Law will be granted patent rights. Foreign patentees, like Chinese patentees, should enjoy their rights and carry out their duties in accordance with the provisions of the Patent Law.

China's Patent Law also stipulates that if a foreigner files an application in China for the patent of an invention or utility model within 12 months of the date he or she first filed an application in a foreign country for the patent of the identical item, or within 6 months if the application is for an external design, he or she may enjoy the right of priority in accordance with the agreement reached between China and the country to which he or she belongs,

or with the international treaty to which both countries are party, or with the principle of priority recognized by both countries. In other words, the date he or she first filed an application in the foreign country may also be considered the date of filing in China.

Question: How do foreigners apply for patent rights in China?

Answer: If foreigners and foreign enterprises do not have a permanent residence or office, they should entrust patent agencies designated by the State Council to handle their application for patent and other relevant affairs. Such agencies now available are the patent agency of the China Council for the Promotion of International Trade, and the Shanghai Patent Office.

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FOREIGN TRADE AND INVESTMENT

MEASURES TO DEVELOP THREE COASTAL ZONES

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 pp 24-25,52

[Article "Three 'Triangular' Areas Have a Bright Future"]

[Excerpt] I. New Steps in the Strategy for Economic Development

Opening the three "triangular" areas--the Chang Jiang and Zhu Jiang deltas and the triangular area in southern Fujian--is an important strategic plan for implementing China's economic policy of opening to the outside world and is of great significance. After opening up, not only will these areas accelerate the economic development of the coastal areas and build the nation's first civilized and prosperous zone where foreign and domestic experiences are exchanged, industry and agriculture are combined, and urban and rural areas are both developed, but they will also promote the development of the inland areas and enable the inland and coastal areas to benefit and complement each other with their own strengths.

Building these three coastal open zones is another important step in the strategic plan of China's economic construction. In order to quicken the tempo of economic construction in the coastal areas and promote the economic development of the inland areas, China will adopt the following three strategic policy measures:

1. Link imports with internal integration and coastal development with inland development through the open economic zones of the coastal areas.

To find an effective solution to the problem of the relations between eastern and western China, and to revitalize the national economy, China must import advanced foreign technology, equipment and management methods through the coastal open areas, special economic zones and open cities and then transfer them to inland areas after they are studied, assimilated and renovated. At the same time, China should sell the products of coastal areas to inland areas and process the raw materials and products of inland areas for export in coastal areas so as to enter the international market. If this measure is conscientiously

implemented, coastal areas will become prosperous first as the window of foreign relations and an important import and export base. This measure will also promote the economic construction of inland areas.

2. Readjust the structure of agricultural production and develop production of foreign trade, industry and agriculture, in that order.

In the wake of the new developments following the opening to the outside world, the existing structure of agricultural production has become obsolete. Because of this, the structure of agricultural production should be changed in accordance with the new situation of the commodity economy. The agricultural production of vast coastal areas should be further oriented toward the needs of foreign trade. For this, the Zhu Jian and Chang Jiang deltas and the triangular area in southern Fujian should be changed to export bases for farm and sideline products and the food industry. They should consider the structural change of agricultural production in accordance with the goal of entering the international market and the needs of exports. They should discard past principles under which production was arranged in the order of agricultural first, followed by industry and foreign trade, and begin to arrange their production in the order of foreign trade (exports), industry (the processing industry) and agriculture (planting). This practice is of great guiding significance not only to the agricultural production of coastal areas but also to industrial enterprises which produce export goods.

The key to readjusting the structure of agricultural production in coastal areas is to reduce the acreage of grain crops, restore the traditional production of fine-quality rice, increase the acreage of cash crops, and develop the breeding industry to satisfy the needs of the development of commodity production and exports.

3. Be bold in exploring and in practice, and expand the open areas gradually from the coast to the inland.

The general trend of China's economic development a gradual opening up from coastal to inland areas. This requires major reforms in the economic structure, management system and management methods. In these reforms, the open economic zones of coastal areas serve as the vanguard of economic reform and shoulder the responsibility of transferring advanced things to inland areas.

Coastal areas are the window of opening to the outside world and the base of internal integration. Therefore, they should not only look toward the east and face the developed countries of the world but also look toward the west and face the interior of China. We all know that inland China, which includes Central, Northeast, Southwest and vast Northwest China, covers a vast territory, has abundant natural resources and is a very good place for the investment of coastal areas. It is a place where advanced technology can be spread and talented personnel can carry out their grand plans. Integrating inland and coastal areas can convert the imbalance between different regions of China from a disadvantage to an advantage.

Coastal areas are not only a base for China's modernization drive but also a bridge between China and advanced countries over which technology and funds can be imported to develop China's economy. Coastal areas have the condition and ability to screen, discard and absorb advanced foreign technology, equipment and management styles and methods suitable for large-scale socialist production and make them serve China in light of the actual conditions of China's economic development.

## II. Coastal Open Economic Zones Are Richly Endowed by Nature

Coastal open economic zones which were recently opened include Suzhou, Wuxi and Changzhou of the Chang Jiang Delta, Foshan, Jiangmen and Zhongshan of the Zhu Jiang Delta and Zhangzhou and Quanzhou of the triangular area in southern Fujian.

Let us analyze the advantages of each open zone. Take the Chang Jiang delta for the first example. Extending across Jiangsu and Zhejiang provinces and Shanghai Municipality, it is not only the famous land of rice and fish but also the most developed area of China in regard to industry, science and culture. It is called the "golden triangle." Located in the center of the Chang Jiang delta traversed by the Beijing-Shanghai Railroad and the Grand Canal, Suzhou has been the national silk center since the Song dynasty. It is one of the first cities to develop industries in modern history. The embroidery and gardens of Suzhou are famous all over the world. It also has excellent conditions for development of daily commodities and the food industry. The "king" of the textile, flour and filature industries--which are the three pillars of China's nationalities industry--gained fame and fortune in Wuxi where the electronics, textile, machine-building and light industries are getting stronger every day. Wuxi will be planned and developed to be an information, trade and communications center for establishing close links between China and foreign countries. Taihu is a famous resort area. Changzhou is on the south bank of the Chang Jiang. It has been a major economic center south of the Chang Jiang since the Southern Song dynasty. Its major industries include textiles, machine-building, metallurgy and electronics.

Foshan is located in the north part of the Zhu Jiang delta. It has silk, chemical, machine-building, electronics and food industries. It is famous for such products as gambiered Guangdong gauze and ceramics. Located in the west part of the Zhu Jiang delta and the lower reaches of the Xi Jiang, Jiangmen has convenient water and land communications. It is one of Guangdong's export ports. Its industries, including machine-building, sugar and paper-making, have developed rapidly. Cuiheng village of Zhongshan County, the hometown of Dr Sun Yat-sen, is abundant in rice, sugar cane, litchi and bananas. Commodity production is highly developed in this village.

Located in the triangular area in southern Fujian and in the lower reaches of the Jiulong Jiang in Fujian Province, Zhangzhou is the water and land communications center of southern Fujian and the commodity collection and distribution center of the Jiulong Jiang basin. It has such industrial sectors

as food processing and machine-building. Located on the north bank in the lower reaches of the Jin Jiang in Fuzhou, Quanzhou was China's biggest foreign trade port in Song dynasty and is called "the world's first commercial port." Its food, chemical, machine-building and electronics industries are relatively well developed. It is also a famous hometown for overseas Chinese.

In sum, these three open areas all have definite industrial foundations and convenient communications. They are China's richest areas. They also have the broadest and deepest relations with foreign countries. Because these three "triangular" areas have the superior conditions of "timing, location and unity," they are exceptionally suitable for importing technology and utilizing foreign capital. Therefore, these open zones will become China's bridgehead in opening to the outside world and will play the important role of springboard in China's foreign economic activities.

Through the multi-level exploration and practice of special economic zones, open cities and economic zones and inland areas, China is now pushing the reform of economic structure gradually from east toward west and from the outside toward the inside.

12302  
CSO: 4006/732

FOREIGN TRADE AND INVESTMENT

1984 ACHIEVEMENTS, REMAINING PROBLEMS OF COMMODITY INSPECTION

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 pp 26-27

[Article by Zhu Zhenyuan [2621 7201 0337]: "Strengthen Commodity Inspection, Supervision and Control Work"]

[Text] I. Commodity Inspection Work Scored Great Achievements in 1984

A. The "rules and regulations for commodity inspection were conscientiously implemented", the inspection, supervision and management of import and export commodities were strengthened, and state-assigned tasks were basically fulfilled in 1984. According to incomplete statistics, commodity inspection bureaus in all localities inspected 76,117 groups of import commodities in 1984 and discovered that 11,165 groups, or 14.66 percent, did not conform with the contracts or standard specifications in regard to quality and quantity. By presenting the certificates of inspection, they demanded compensation from foreign businessmen, thereby retrieving the losses and safeguarding the interests of the state and consumers. In 1984, commodity inspection bureaus in all localities inspected 590,744 groups of export commodities and discovered that 9,512 groups, or 1.61 percent, were not up to quality standards.

In accordance with the relevant provisions of the "rules and regulations for commodity inspection," we strengthened supervision and management and accumulated some experiences in this regard. We vigorously carried out notarial appraisals and inspections consigned by foreign buyers. We carried out compulsory inspections of ship holds and containers carrying perishables and frozen goods, doing away with the restriction that notarial appraisal can only be carried out upon request. Supported by commodity inspection bureaus on the mainland, the China Import and Export Commodity Inspection Cor in Hong Kong made fairly big strides in business.

B. With regard to the guiding ideology of business, we enhanced the understanding of the need to render service in addition to exercising control, the need to strengthen supervision and management in addition to doing a good job in making inspections and issuing certificates and the need to organize social forces to increase the understanding and awareness of commodity inspection in addition to strengthening the voluntary commodity inspections of enterprises. While doing

a good job in making inspections and issuing certificates, we strove to render quality service and made positive contributions to accelerating the development of foreign trade and state construction.

C. We enhanced rules and regulations. In accordance with the provisions of the "rules and regulations for commodity inspection," the State General Administration for Inspection of Import and Export Commodities formulated and promulgated over a dozen rules and regulations including "detailed rules and regulations for the implementation of rules and regulations for commodity inspection." "procedures for the sanitary control of export food, "minimum sanitary requirements for export food factories (and storage rooms)," procedures for inspecting ship holds and containers carrying cereal, edible oil and frozen food, and procedures for visa control. In accordance with local conditions, local commodity inspection bureaus also formulated some local implementation procedures, rules and regulations. Some were issued in the name of local governments. The internal management system of commodity inspection bureaus was also somewhat strengthened.

D. We readjusted and strengthened leading bodies in accordance with the requirements of the "four modernizations." At present, the average age of the 90 chiefs and deputy chiefs of commodity inspection bureaus in 29 provinces, municipalities and autonomous regions (not including the Xiamen, Chongqing, Shenzhen and Hainan commodity inspection bureaus) is 50, 5 years younger than that before the readjustment. Among them, 55 have college education, an increase of 38 percent. We also strengthened personnel training. Colleges offered regular commodity inspection courses. Local commodity inspection bureaus trained cadres through a variety of channels such as on-the-job training, university and college training courses, short-term training courses, night schools and television and radio education programs.

E. We also made progress in scientific research, information, standardization and technological exchange. We strengthened domestic and foreign propaganda and established regular contacts with the press. ZHONGGUO SHANGJIAN [CHINA COMMODITY INSPECTION] played an active role in publicizing commodity inspection work, spreading information and exchanging experiences, and was very popular among readers.

F. Financial and logistical departments did a great deal of work for developing the service of commodity inspection. We carried out the initial reform of the financial system. The amount of investment made in capital construction (including inspection of buildings and workers' dormitories), the acreage of construction projects completed and the amount of inspection equipment purchased in 1984 all surpassed previous records.

## II. Commodity Inspection Work Still Has Some Problems and Backward Aspects Which Cannot Meet the Needs of the Developing Situation

A. Developments in implementing the "rules and regulations for commodity inspection" are still uneven. Measures for supervision and management are not specific. Some have not been implemented. Commodity inspection departments have been unable to play a successful role of superintendent in exercising unified supervision and management of import and export commodity inspection. The guiding ideology of business needs further correction.

B. During the process from accepting applications to issuing certificates, some procedures are too complex. Some departments take a long time to complete the process. Others either fail to give accurate inspection results or fail to charge in accordance with the regulations.

C. The establishment of organizations and the number and quality of employees fail to meet the need of business developments. Some commodity inspection personnel lack professional skills and a strong sense of responsibility, and are unable to perform quality work. The personal responsibility system is imperfect.

### III. We Should Liberate Thinking, Study New Situations and Promote Commodity Inspection Reform in a Vigorous but Steady Manner.

Along with the rapid development of the national economy and the increasingly in-depth development of the structural reform of foreign trade, commodity inspection work will encounter many new situations and problems. They are mainly as follows:

A. When foreign trade volume quadruples, commodity inspection tasks will become more and more complex.

B. Due to the further opening up of special economic zones, coastal cities and the three "triangular zones" the reform of foreign trade system and developments in the use of foreign capital and the import of advanced technology, new ports, new management units and new management methods will continue to appear.

C. The increasingly acute competition on the international market and the advent of the new technological revolution have placed higher demands on quality. We should quickly familiarize ourselves with new inspection items and master new inspection skills.

D. The State has further strengthened quality control and inspection work. Various examination and test centers have been established one after another.

To adapt to these new situations, we should plan to adopt the following measures:

1. We should conscientiously study and understand the decisions and directives of the central government on the reform of the economic structure. Because it concerns many areas and fields, commodity inspection reform is very complicated. We should not only oppose following the beaten path and being conservative but also oppose seeking instant success and following the trend. We should follow the directive of Premier Zhao on "being cautious in the first battle to ensure victory," proceed from the reality of commodity inspection work, plan every move carefully, and make sure every step is safe. For reforms concerning many areas, we must first carry out thorough and painstaking investigation and study, mete out plans and then carry them out in a step-by-step and well-guided manner. For major reforms, we should first carry out experiments in pilot units.

2. We should further correct the guiding ideology of business. First of all, we should establish a firm understanding of the need to exercise control and render service. We should do a good job in the quality control of import and export commodities and render quality services to accelerate production and develop foreign trade. We should simplify procedures and shorten the time required for making inspection and issuing certificates to provide convenience for imports and exports. We should cooperate with foreign trade department in ensuring timely settlement of foreign exchange so as to avoid delays in delivery and claims for compensation. We should carry out, if necessary and possible, inspection work in the process of production and processing in a planned and concentrated manner, help production departments solve quality problems as soon as they are discovered, vigorously and voluntarily offer technical and consultant service for production and foreign trade departments and users, and help them train inspection personnel.

Commodity inspection departments should not be operated only for profits. They must adhere to the principle of reasonable charges.

3. An important aspect of the commodity inspection reform is to strengthen supervision and management and give full play to the role of commodity inspection departments as a superintendent in exercising unified supervision and management of import and export commodity inspection work. We should conduct inspections and issue certificates carefully so as to improve the quality of work and certificates.

In light of the actual conditions of different localities and commodities, we should implement in a planned and step-by-step manner the factory registration system, issue quality certificates, use product quality or safety signs, classify factories according to their quality control situations, and implement lax or strict supervision and management methods accordingly. We should perfect the imports declaration system, enhance streamlined management, and urge the receiving and consuming units to check import goods carefully before accepting them.

4. We should establish and strengthen the technical responsibility system, give better play to the enthusiasm of technical personnel and accelerate the improvement of technical standards.

Commodity inspection is highly technical and concerns many disciplines. The key to issuing accurate certificates quickly and improving the quality and reputation of certificates is to continue to improve our inspection skills. Because of this, we should first establish and strengthen the technical responsibility system and let technical experts direct and manage technical work. We may establish on a trial basis a technical committee consisting of chief, deputy chief and responsible engineers, and let it study and formulate technical plans and solve major technical problems under the leadership of the bureau chief. Second, we should appropriately reform the system of physical and chemical inspection rooms and gradually establish a relatively centralized and independent system under which inspection rooms will be geared toward the needs of society and will implement and independent accounting system (but not

assume sole responsibility for their own profits and losses for the time being). Some localities may establish special examination and test centers on a trial basis, develop toward specialization and socialization, give full play to the role of equipment and instruments and help technical personnel improve their skills as soon as possible. Third, we should further strengthen scientific research and, in accordance with the orientation and demand set by the state for the reform of scientific research and under the prerequisite of serving commodity inspection and concentrating on the research of applied technology, gradually implement the fee contract system in scientific research organizations, bring into full play the enthusiasm of scientific research personnel, help scientific research organs make more achievements and train more competent people, and accelerate the improvement of commodity inspection technology.

E. We should do away with some outmoded customs of commodity inspection and better conform to the demands of opening to the outside world and invigorating the domestic economy.

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FOREIGN TRADE AND INVESTMENT

FORUM STRESSES DEVELOPMENT OF HAINAN ISLAND

HK121042 Haikou HAINAN RIBAO in Chinese 17 Jun 85 p 1

[Report by Wang Guoxiong [3769 0948 7160]: "At a Forum Held by the Regional People's Government, Lei Yu Stresses That the State's Determination To Develop Hainan Is Firm and Unshakable"]

[Text] The Hainan Regional People's Government held a forum yesterday morning to brief a Thai Overseas Chinese delegation on the development and construction of Hainan Island. Lei Xu, leader of Hainan Regional People's Government, stresses that Hainan Island is rich in natural resources. Hainan Island implements open-door preferential policies. The prospects for the development and construction of Hainan Island are brilliant and the state's determination to develop Hainan is firm and unshakable.

All the members of the delegation attended the forum. Included were Wu Duolu, the leader of the delegation; Zhang Guangli, deputy leader of the delegation; Kun Ren, the wife of Chen Songcai who is the assistant minister of agriculture of Thailand; Cai Luo, the former deputy minister of the interior of Thailand, and others.

At the forum, Chen Yinghao, a responsible person of the Hainan Regional People's Government, gave an account of the superior geographical features, climate, mineral resources, and products of Hainan Island and the achievements gained since the state decided to accelerate the development and construction of Hainan Island. He then pointed out that the prospects for the development and construction of Hainan Island are brilliant. This is not only because of the rich natural resources of Hainan Island, but, most importantly, because Hainan Island has decisionmaking power delegated to it by the central authorities and carries out open-door preferential policies. So long as all work hard together in a down-to-earth manner, they will surely be able to build Hainan Island into a beautiful and richly-endowed treasure island which has an advanced economy, advanced technology, good living conditions, and a good ecological environment.

Lei Yu then answered the questions raised by the delegation. On the question of Hainan Island's open-door policies, Lei Yu said that according to the relevant state regulations, foreigners and Overseas Chinese who want to invest in Hainan Island to build enterprises can use the system of joint

investment and independent investment. They can invest in farms, aquatic breeding, and sea fishing. They can also invest in factories, mines, airports, ports, tourism, finance, and more. He also mentioned that Thailand's Bank of Bangkok will open an office on Hainan Island. He said that it will be the first bank with foreign investment and Overseas Chinese investment on Hainan Island. It has been approved by the state and will play a positive role in attracting foreign businessmen and Chinese businessmen residing in foreign countries to invest in Hainan Island. On the question of whether policies will be changed or not, Lei Yu said firmly that the determination of the CPC Central Committee and the State council to accelerate the development and construction of Hainan Island is firm and unshakable. The open-door policies will not change. Even if there are some changes, the changes will be good ones; that is, the policies will become more relaxed and more open. The state's investigations into some policies is only temporary. The policies implemented on Hainan Island will become more open. He asked all the friends and fellow countrymen who live abroad to set their hearts at ease. While answering the questions, Lei Yu also said that recently foreign businessmen, Hong Kong businessmen, and Overseas Chinese have invested more in Hainan Island and have shown more interest in investing in Hainan Island than in the past. Hainan Island has signed contracts with foreign businessmen and Overseas Chinese on some major projects that include a contract with Australia's DSR Petroleum Group to jointly open up the continental oil in the northern part of Hainan Island, a contract with Japan's Judao Construction Company and other Japanese companies to jointly build the Haitian Guesthouse, for which construction has already begun, and contracts with Thai Overseas Chinese Ye Shizhong, Wu Ganji, and others to jointly build a cement plant, a clothing factory, a car parts factory, and other projects. These projects are either of joint investment or of independent investment, and some are still under discussion. Lei Yu said that from this, people can see that some businessmen with broad vision have not lost confidence due to the temporary readjustment of some open-door policies. They have their eyes on the future development and construction of Hainan Island. This shows that they have strategic foresight. I hope that more and more Overseas Chinese and foreign citizens of Chinese origin residing in Thailand will follow them.

Wu Duolu, leader of the delegation, also spoke at the forum. He mainly spoke about his impressions of Hainan Island and said that Thailand's Bank of Bangkok must contribute to the construction of Hainan Island.

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FOREIGN TRADE AND INVESTMENT

SWEDES VIEW BUSINESS OBSTACLES, CHINESE AIR EXPECTATIONS

Stockholm DAGENS NYHETER in Swedish 24 Jun 85 p 10

[Article by Goran Leijonhufvud: "They Are Waiting For Foreign Capital"]



[Text] Many cities in China are now open for foreign investments. The leaders in Wuxi in the delta of the Yangtze River have been forced to compete for foreign capital with other cities. However, many companies hesitate and are uncertain. DAGENS NYHETER has studied a recent report which points out the factors that discourage foreign corporations from investing in China.

The city fathers of Wuxi say: "Come into our arms." These days there is an outright competition among local communist leaders about who can attract the highest amounts of foreign currency. China has opened up 15 coastal cities and 3 large areas for foreign investments "on favorable terms."

As a journalist coming from a developed industrial nation I am considered to be a channel for prospective profitable cooperation. A meeting with the leaders of Wuxi is quickly arranged.

Zhu Jilin and Liu Hui come to my hotel loaded down with brochures and statistics. Zhu is responsible for all contacts with foreign countries while Liu is the head on the production side in the city's administration.

[Question] What is so special about Wuxi?

[Answer] Zhu Jilin: Our transportation is pretty good and we have had a solid industrial base for some time.

Wuxi was one of the first industrial cities in China and used to be called "little Shanghai." The textile industry, in particular, has long been established there.

#### Enormous Expansion

Roland Olsson, president of the Swedish-Chinese pharmaceutical company in Wuxi says: "This whole region with Shanghai and the Yangtze River delta is experiencing an enormous expansion. I see a continuous increase in the number of factories getting started here. It is an area with a population of 80 million and the same size as France. This is where Sweden should concentrate her investment in China. We should not diverge too much."

The pharmaceutical factory in Wuxi will soon be joined by Atlas Copco company which will set up equipment at the compressor plant.

It is true that transportation is quite well developed. The city is located on the main railway line between Shanghai and Peking--and also near the Yangtze Kiang River. Still, it lacks a number of things.

Airline service to Peking has just started, but only twice a week. There are no cabs at the small airport. The car, that gave this correspondent from DAGENS NYHETER a ride, had to wait for 1 hour at the railroad crossing. The trains run so frequently that the guards many times do not bother to lift the gates. In the meantime, the lines of trucks get longer on both sides.

"Yes, we do have to build an overpass there," says Lui Hui.

That is just a fraction of the reality behind the brochures. In order to offset these drawbacks, Wuxi--and other cities--offer advantageous conditions. It became possible for Wuxi--and the other cities in the Yangtze delta--to do so in March of this year.

#### What Are the Conditions?

--Exemption of customs duty and value-added tax of all imported goods used for the manufacture of export goods.

--A 20 percent reduction in the income tax levied on the companies. (Usually this tax amounts to 33 percent of the profit.)

--The city's trading companies can deal directly with foreign companies. And the city also has greater self-determination in regard to foreign investments.

#### Increased Competition

Wuxi has less independence than the 15 coastal cities and the 4 free trade zones. It does not receive government grants for building up the infrastructure--which the coastal cities and the free trade zones do--neither does it receive any grants of foreign currency.

"Yes, there will be competition," says Liu Hui. "But we already have a market and an infrastructure here."

[Question] Isn't there a risk that China will have even greater gaps domestically now that the relatively developed coastal areas will have increasingly better opportunities?

[Answer] Zhu Jilin: The coastal cities have always been ahead. It's like a staircase. Our policy is to first develop good conditions here--then we'll deal with the others.

#### Good For Less Populated Areas

"We also have an obligation to assist two regions, i.e. Sinkiang and Guangxi--a task given to us by the government. We help them with modern technology."

But it also turns out that these areas can function as bases of raw materials for Wuxi and "as a market for goods that are not sold abroad."

"We look for automated production line [technology] from abroad, better equipment for dyeing in the textile industry and for modern methods in the manufacturing of construction materials (we have the raw materials). We also like to see investments in electronics and computer technology," says Zhu Jilin.

Foreign investors harbor a great deal of hesitation and uncertainty in regard to China. How do we know that there will not be a change in policy again? In response to this question Liu Hui says: "Our leaders have time and again stated that this is a long-range policy. Who knows, there may be new leaders --but the policy will remain because it is based on the totality of our experiences."

#### Deterrent

But a recent report, from one of the larger Western embassies that DAGENS NYHETER had access to, states that the Chinese give with one hand while taking with the other.

The report summarizes what it is that deters foreign businessmen: Strict currency regulations; the Chinese partner's investment is over-valued--e.g. in regard to costs for land and labor; work-discipline is poor; customs treatment is temperamental; access to local raw materials uncertain--which

is made worse by the poor transportation conditions; energy and telecommunications are insufficient; it is difficult to convert the profit to foreign currency and take it home; access to the domestic Chinese market is uncertain and it is difficult to define and identify the competition; prices for local raw materials are--up to this time--determined by the government and do not reflect the market value which--in turn--makes it difficult to calculate the real cost of production.

The legislation is not sufficient, despite the fact that the Chinese are making great efforts these days--and it is difficult to find housing for foreign personnel who often find themselves isolated in hotels.

#### High Costs

The report states that the Chinese defeat themselves in the competition for foreign capital. They destroy that which could be their greatest advantages: low costs for land, labor and raw materials. Costs in China are at the same level as in other regions of Asia, e.g. Hongkong, Singapore and Taiwan. But because productivity is lower in China it actually becomes more expensive to manufacture here.

The attraction for some to defy this formidable list of obstacles is, of course, the huge Chinese market.

For those interested in working in the Chinese market, there is a recently published handbook available entitled "The Chinese Market," published by the Swedish-Chinese Trade Council. It includes sections on the organization of the foreign trade, marketing and investments--besides practical information.

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FOREIGN TRADE AND INVESTMENT

DOMESTIC, OVERSEAS INSURANCE BUSINESS FLOURISHES

OW271013 Beijing XINHUA in English 0713 GMT 27 Jun 85

[Text] China earned 5.4 billion yuan from its domestic and overseas insurance transactions over the past five years, the People's Insurance Company of China announced today.

During that period the company paid out two billion yuan on some one million claims, helping factories restart production and urban and rural residents rebuild their homes after natural disasters. It paid out about 1.1 billion yuan in taxes to the state, and its insurance reserve funds now total 1.2 billion yuan, a company official said.

Over 800,000 employees in 19,000 collective enterprises across the country have taken out retirement insurance policies since the business began in 1982. The policies are worth 60 million yuan.

The company now provides 40 overseas insurance services, including insurance for marine cargo shipment, ocean-going vessels, international airliners, nuclear power plants, computers, offshore oil development and motor vehicles.

It signed insurance contracts with 23 foreign oil companies last year, underwriting property, third-party liability, well eruptions and oil pollution.

New domestic services include insurance against forestry fires in Guangxi and Jilin, and quality liability for products, particularly household electrical appliances.

The People's Insurance Company of China now has more than 2,000 branches in China and abroad.

CSO: 4020/282

FOREIGN TRADE AND INVESTMENT

SHENYANG COMPANY IMPORTS FOREIGN TECHNOLOGY

OW010832 Beijing XINHUA in English 0655 GMT 1 Jul 85

[Text] The newly-formed Shenyang International Trust and Investment Corporation has signed six deals to import modern technology to industries in this capital of Liaoning Province.

It is hoping to conclude another 16 deals, which it has been pursuing since its founding in January, said Chairman Wang Haixiang today.

The deals already signed involve 2,500,000 U.S. dollars worth of equipment, including woolen-sweater knitting machines, a 25-ton truck lifter, and computer parts and their cleaners.

The corporation, backed by 50 million yuan and a healthy supply of foreign currency, is working to attract foreign advanced technology and investment to Shenyang, Wang added.

It handles economic agreements for Sino-foreign joint-venture enterprises and other cooperative businesses, supervises imports and exports of advanced technology and raises money abroad by issuing securities.

Wang said: "We are aiming to attract more foreign funds through various channels, and then invest the money wisely in enterprises."

The corporation is making a bid to build a soy-sauce factory in Chicago in the United States and a rubber-tire factory in Nepal.

It will cooperate with the Philippines in producing farming machines and diesel engines.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

PATENTS INCREASE SINCE DRAFT LAW IMPLEMENTED

OW022023 Beijing XINHUA in English 1448 GMT 2 Jul 85

[Text] Since China's first patent law was put into effect on April 1, more than 7,000 applications for patent rights have been submitted to the China Patent Office, the director of the office said here today.

Huang Kunyi said the applications are not being classified and examined; some are expected to be approved and published by the end of this year.

He said domestic applications account for 70 percent of the total. Among them, over 900 applications came from Beijing, followed by Shanghai, Jiangsu, Liaoning and Hunan provinces, and Tianjin.

The other 2,100-odd applications came from over 30 countries and regions. Japan has sent 800, the United States over 400 and Hong Kong 58. Others include Federal Germany, the Netherlands, Britain and Switzerland, Huang Kunyi said.

Among the total applications, those for innovation rights account for 63.4 percent.

Huang Kunyi pointed out that individual applications account for 40 percent of the total domestic ones. This shows that the establishment of the patent system is encouraging people to make innovations.

The total volume of applications for patent rights is expected to be 12,000 by the end of this year, and more are expected next year. At present, China has 4,400 licensed patent agents, and another 1,500 are being processed for certificates.

Patent agencies and centers providing patent services have been set up throughout China. In order to help patent workers raise their standards, a college offering advanced studies for patent cadres will be established in Shanghai, and similar training classes will be offered in Chengdu, Sichuan Province.

Huang Kunyi said the State Education Commission plans to start courses in patent law and procedures at Qinghua, Fudan and Xian Jiaotong Universities. The Ministry of Justice will continue its work to train patent lawyers at China University of Political Science and Law.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

PRC MINISTRY OFFICIAL ON INVESTMENT ABROAD

HK120405 Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 3 Jul 85 p 1

[Article by reporter Feng Xiao [7458 7197]: "China Invests in More Than 100 Enterprises Abroad--Our Country's Investment Abroad Has Grand Prospects"]

[Text] Recently, Wulan Mulun [3527 5695 2606 0243], director of the foreign economic cooperation bureau of the Ministry of Foreign Economic Relations and Trade, told reporters that our country's investment in foreign countries has developed rapidly. From 1980 until the end of last year, our country established over 110 nontrade joint-venture enterprises in over 30 countries or regions, and the investment by our side accounted for two-thirds of the total investment of over 200 million U.S. dollars by both sides. Our country's investments abroad spread all over five continents, of which two-thirds are in Third World countries. Assuming flexible and diversified forms of cooperation, these enterprises employing China's capital in foreign countries are mainly engaged in resource exploitation, processing industries, shipping and consultative services, finance, insurance, and construction projects, as well as Chinese restaurants and other projects.

Asked by reporters about the focal points of China's investment in foreign countries, Director Wulan Mulun raised the following aspects:

--Cooperative projects for exploiting natural resources. Through joint investment, purchasing permits, and other forms, we vigorously cooperate with countries which have forest, fishery, and mineral resources and set up various specialized processing factories. Products of these factories can be sold locally or in other countries. And part or all of these products can also be sold in our country.

--Projects favorable to expanding the export of our country's products, in particular the export of mechano-electrical products. Our country's capacity for producing mechano-electrical products is relatively strong, and many products suit the needs of the Third World countries. We provide equipment, send technical personnel to direct production, and train qualified people for the other party. Because enterprises of this kind do not need much investment but can produce fast and notable results, they can meet the local needs for mechano-electrical products, promote the relevant countries' independent development of national economy, and also

be favorable to the export of our country's equipment and materials. Therefore, it can answer a double purpose and benefit both parties.

--Jointly run international contracted engineering projects. At present, our country has over 50 contracting companies specializing in international engineering projects. They have massive workforces and rich experience and are willing to jointly run contracting engineering companies with friends in every country. Our side joins in partnerships with floating capital and required machinery and tools, and is responsible for organization, planning, and operation. We contract for all or part of industrial and civil construction projects, special projects, and mineral prospecting and exploitation projects, as well as construction projects in communications, harbors, power stations, and others.

--New technology development projects. As long as these projects will be advantageous to introducing advanced technologies into our countries, improving product quality and promoting the upgrading and updating of products, we are all willing to make investments and carry out cooperations abroad.

--Jointly owned and run restaurants. Our country has a long history of culinary art, and Chinese traditional cooked food is generally favored by people in every country in the world. Provinces and cities in our country like Sichuan, Guangdong, Liaoning, Beijing, Shanghai, and so on have adopted various forms to run jointly owned Chinese restaurants in over 90 countries and regions, which are all very popular among local peoples.

When reporters inquired about the principles of our country's overseas investments, Director Wulan Mulun explicitly said that equality and mutual benefit, striving for practical results, diversification, and common development are the general principles governing our country's foreign economic relations and cooperation proposed by Premier Zhao Ziyang 3 years ago. It is exactly these principles which we have followed to set up the above-mentioned various joint-venture enterprises in foreign countries. We respect the sovereign rights of the countries in which joint-venture enterprises are located. We do not interfere in the internal affairs of these countries, designate any additional political conditions or demand any privileges, but we observe the laws and decrees of these countries, respect their customs and habits and strictly execute joint-venture contracts signed by both sides. On the basis of equality and mutual benefit, we adopt flexible and diversified forms of investment and operation in foreign countries. We both make cash investments and convert equipment, technology, and materials into capital. We have both joint-stock companies and contracted companies.

Finally, Director Wulan Mulun said: Our country is willing to develop friendly cooperation with every country in the world, and, in particular, attaches importance to friendly cooperation with the Third World countries.

CSO: 4006/760

FOREIGN TRADE AND INVESTMENT

PREFERENTIAL TREATMENT FOR FOREIGN INVESTORS

HK120327 Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 4 Jul 85 p 5

["At Your Service" column: "What Preferential Treatment Are Foreign Investors Entitled To in China?"]

[Text] [Question] What Preferential Treatment and guarantees does the Chinese Goverment offer to foreign investors?

[Answer] China offers preferential treatment to foreign investors who invest in China and provide it with advanced technology. In Chinese-foreign joint ventures, foreign businessmen are exempted from customs duty and the industrial and commercial consolidated tax when importing machinery and equipment for the purpose of investment. Chinese-foreign joint ventures may be exempted from income tax in the first and second profit-making years, and allowed a 50 percent reduction of income tax in the third, fourth and fifth years. The joint ventures scheduled to operate in farming, forestry, or other low-profit operations in the economically underdeveloped areas may, upon approval by the state, be allowed a 15 to 30 percent reduction in income tax for another 10 years following the expiration of the period of exemption. In terms of taxation, the joint ventures will enjoy further preferential treatment in the special economic zones, the 14 coastal cities which are further open to the outside, Hainan District, the Chang Jiang, the Zhu Jiang, and the Xiamen-Zhangzhou-Quanzhou Delta in southern Fujian Province. Except for those limited by the state, the export products of Chinese-foreign joint ventures will be exempted from export customs duties and the industrial and commercial consolidated tax. Regarding products which are made using advanced technology, or which are badly needed by China or have to be imported from overseas, the joint ventures may be allowed to expand the scale of marketing in China. The joint ventures may even be allowed to produce the products mainly or solely for the China market. When the joint ventures are unable to balance their foreign exchange, they may, upon approval, be given assistance by the state or local authorities.

CSO: 4006/760

FOREIGN TRADE AND INVESTMENT

XINHUA REVIEWS TOURISM INDUSTRY IN XIZANG

OW060616 Beijing XINHUA in English 0245 GMT 6 Jul 85

[Text] More than 1,200 foreign visitors came to Tibet--the roof of the world--from January to May this year, three times more than in the same period last year, according to the Tibet Regional Tourist Corporation.

This has brought the total number of visitors there to well over 10,000 since it was opened to tourists in 1980.

They came from more than 30 countries in the Americas, Europe and Asia. The majority of the foreign tourists came to Lhasa by air from Chengdu, capital of Sichuan Province, and the rest by bus from Nepal, through the Port of Zham, a border town linking the two countries. They came to tour scenic spots, climb mountains, carry out scientific surveys, hold wedding ceremonies and spend a day with locals.

This once secluded mysterious place, which is also known as the land of snows, will soon become a hot spot for tourists, commented Philip Morrell, manager of British Travel Promotions Ltd. after a study tour of Tibet earlier this year.

The development of tourism is one of the main features of the region's implementation of the policy of opening to the outside world, a tourism official said.

Tibet has over 40 mountain peaks 70,000 meters above sea level. Qomolangma (Everest), the highest mountain in the world, is located on the Sino-Nepalese border.

Ancient Tibetan culture, several hundred hot springs, peculiar temples and buildings, and unique local customs are of great interest to foreign tourists.

Han Xiaoli, general manager of the tourist corporation, said Lhasa, Zham, Xigaze and Shannan have hotels and restaurants providing lodging and catering for tourists.

In Lhasa, there is one taxi company and two hotels run by locals. The Xueyu Hotel, on the northern side of Octagonal Street, is built in Tibetan style. Since it opened five months ago, the Xueyu Hotel has received about 800 tourists from 10 countries.

Han said local people have erected tents to serve meals, wine and tea on the highways from Lhasa to Shannan and Xigaze prefectures, and Zham.

Now 43 construction projects are underway in Tibet with the assistance from nine provinces and municipalities. Some 60 percent of the funds provided are being used to develop tourist facilities, including nine hotels, urban services and transport facilities.

The Lhasa Airport and Tibet Guest Houses, Lhasa, Xigaze, Qamdo and Nagqu Hotels, and the Ngari Lodging House will have 2,850 beds in all, 10 times the present figure. They will have an annual reception capacity of about 60,000 tourists.

The region will be able to receive 200,000 tourists annually by the end of this century, Han said.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

GUANGDONG FACTORY ASSIMILATING NEW TECHNOLOGY

HK111450 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT  
9 Jul 85

[Text] The Foshan City Ceramics Industry Company has speeded up the technological transformation of the industry by assimilating imported technology.

Under the Foshan City Ceramics Industry Company there are enterprises. If the company imports equipment from overseas to transform the industry on a large scale, it will cost at least \$50 million. For this reason, the company has decided to import and assimilate technology as well as make innovations, in order to lighten the foreign exchange burden on the state.

The large mixed grinding mill is the key equipment in processing ceramic raw materials. The company has treated it as the breakthrough point for assimilation. In April 1982, the company imported from Italy a complete automatic production line for making color-glazed wall tiles. Before the arrival of the production line, the company organized engineers and technicians to study and assimilate the advantages of the equipment's technology. After a 4-month effort, they designed and developed China's largest wet mill at that time. It was popularized in the industry and improved economic results.

High-temperature calcine is a major process in ceramic production. The pit kiln calcination developed overseas produces good results and only uses gas as fuel. After assimilating the advantages of the design of pit kiln, the company designed and developed its pit kiln that conforms to China's ceramic production and uses heavy oil fuel. After the calcination, the quality of semi-finished products is improved from 15 to 20 percent compared with that of the traditional car tunnel kiln that consumes fuel. In regard to energy consumption, the pit kiln consumes 60 percent less than that of the car tunnel kiln, and the investment sum is two-thirds less than if the kiln is imported from overseas.

CSO: 4006/760

FOREIGN TRADE AND INVESTMENT

OVERSEAS RENMIN RIBAO ON POWER FOR OPEN CITIES

OW111140 Beijing XINHUA in English 1835 GMT 11 Jul 85

[Text] China's 14 open coastal cities will get a boost in power supply this year with total new capacity of 3.6 million kilowatts in generating power scheduled to go on stream, according to today's overseas edition of the PEOPLE'S DAILY.

Over the next five years, the paper says, the coastal cities will build thermopower plants with a capacity of 18.75 million kilowatts which will be fed into the north, northeast and east China power grids.

An official of the Ministry of Water Resources and Electric Power was quoted as saying the economic development of the coastal areas has been restricted for some time by the shortage of electricity.

To change this situation, China plans to build thermal and nuclear power plants along the coast making use of all forms of investment, foreign, state and local. Two nuclear power plants are already under construction in Guangdong and Zhejiang. Another is at the site selection stage in Jiangsu Province.

The decision has also been made to erect high voltage power transmission lines from power plants in the upper reaches of the Yellow River to the north China grid, from the Gezhouba Power Plant on the Yangtze River to Anhui, Northern Jiangsu and Shanghai and from a new power station in the Guangxi Zhuang autonomous region to Guangdong.

CSO: 4020/282

FOREIGN TRADE AND INVESTMENT

HEBEI SEMINARS HELD IN HONG KONG, SHENZHEN SEZ

OW111516 Beijing XINHUA in English 1458 GMT 11 Jul 85

[Text] Hebei Province, North China, is to hold seminars in Hong Kong and Shenzhen simultaneously on international economic and technical cooperation from July 22 to 27, an organizer said here today.

A similar seminar will be held here from September 2 to 16.

Hebei will tell Hong Kong, Macao and foreign firms about its 1985 economic and technical cooperation projects and the forthcoming Shijiazhuang seminar. The cooperation projects involve textiles, building materials, pharmaceuticals, light industry, foodstuffs, chemicals, machinery and metallurgy. Most are for technical transformation of existing enterprises.

Hebei has 17,000 industrial enterprises.

Since China adopted the policy of opening to the outside world, the province has signed 72 projects with foreign firms, worth a total of \$800 million. The projects involve joint ventures, cooperative management, compensation trade, leasing, processing with supplied materials and government loans.

In recent years, Hebei Province has also spent \$100 million in hard currency to import 200 up-to-date pieces of equipment and technology. Export will also be discussed at the two seminars.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

PRC OPENS MORE LOCATIONS TO FOREIGNERS

HK110311 Beijing CHINA DAILY in English 11 Jul 85 p 1

[Article by staff reporter Ning Yanming]

[Text] Foreigners are now able to freely visit more places in China thanks to the opening of two more cities and one county and a simplification of procedures for visiting 20 other areas, the Ministry of Public Security told CHINA DAILY.

There are now 103 cities and regions open to foreign visitors who need only to carry a passport, visa or residence card for identification. The latest additions to the list of open destinations are the cities of Manzhouli and Erenhot in Inner Mongolia Autonomous Region and the county of Huangzhong in Ginghai Province.

The ministry also listed 20 other places which foreign tourists can visit with a travel permit available from local public security bureaus.

Those places are Wutai and Fanzhi counties in Shanxi Province; Golmud City, Ledu and Gonghe counties and Lenghu and Mangya townships in Ginghai Province; Puyang and Pingdingshan cities and Wenxian county in Henan Province; Huaiyin and Yancheng cities in Jiangsu Province; and the cities of Yuxi, Chuxiong and Gujig, counties of Tonghai, Jinghong, Menghai and Simao and the Autonomous County of Naxi Nationality, all in Yunnan Province.

As Beijing entered its hottest season of the year, the motorway linking Tianjin and Tangshan has been opened to staff of foreign embassies, correspondents of foreign media, experts and others stationed in the capital who want to drive to the nearest seaside resort of Beidaihe on the coast of Bohai Gulf.

The highway will be open for foreigners driving their own cars from June to September every year, the government decided recently. The decision has been hailed by foreign residents and the move will help ease the heavy traffic on the railway between Beijing and Ginkuangdao, which runs the Beidaihe summer resort.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

NONFERROUS METALS CORPORATIONS EXPORTS SURGE

OW101329 Beijing XINHUA in English 1200 GMT 10 Jul 85

[Text] The export volume of the China National Nonferrous Metals Import and Export Corporation (CNIEC) rose by 190 percent in the first half of 1984 over the corresponding period of last year, and imports of related technology surpassed last year's total. This was disclosed by a CNIEC Vice-president Zheng Rugui at a press conference here today.

The development of China's nonferrous metals industry is speeding up because of the high priority given it by the government, Zheng said. China is rich in nonferrous metal resources. It ranks first in the world in fine tungsten ore deposits, output and sale volume.

With the establishment of a relatively complete system, including smelting, refining and processing of nonferrous metals, the country is now able to produce and export heavy and light metals and their alloys, and fabricated products.

CNIEC announced today that it will sponsor a nonferrous metals conference from August 19 to September 6, 1985 in Tokyo. Among over 1,000 exhibits will be nonferrous and rare metals, new metallic materials, and gemstones.

At the conference, an official said, 18 nonferrous metals industry projects will be offered for overseas cooperation, involving a total investment of more than \$100 million.

The CNIEC official welcomed foreign firms to invest or cooperate in the industry in the form of joint ventures of compensation trade.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

PRC SEEKS FOREIGN HELP IN EXPLOITING NONFERROUS METALS

HK120335 Beijing CHINA DAILY in English 12 Jul 85 p 2

[Article by staff reporter Xu Yuanchao]

[Text] In a bid to double China's nonferrous metal production in the next five year plan (1986-1990), the Chinese government will put forward more cooperative projects for discussion with foreign firms.

The China National Nonferrous Metals Industry Corporation (CNNMIC) will sponsor an exhibition in Tokyo next month and 18 projects will be presented for cooperation with Japanese businessmen.

Wang Gang, deputy managing director of CNNMIC, told a press conference yesterday that investment required for the cooperative projects will total more than \$100 million.

He said: "China's nonferrous metal production in the Seventh Five-Year Plan will double the current output." But the State Statistics Bureau has not released any figures for nonferrous metal production.

Of the 18 projects, eight will be new joint ventures including the Pingguo Aluminum Complex in Guangxi Zhuang Autonomous Region; Beijing Aluminum Fabricating Plant; Beryllium Oxide Plant in Xinjiang Uygur Autonomous Region; Chengmenshan Copper Mine in Jiangxi Province; Lanping Lead and Zinc Complex in Yunnan Province; Huili Lala Copper Mine in Sichuan Province; Minghe Magnesium Plant in Ginghai Province and Jishuimen Tin, Lead and Zinc Mine in Guangdong Province.

The remainder will be technical renovation projects. Wang said the Pingguo Aluminum Complex will include two plants--an alumina oxide plant with an annual capacity of 300,000 tons and an electrolytic aluminum plant with a capacity of 100,000 tons a year. The feasibility studies have been done by a British company.

The exhibition will open at MIPRO Exhibition Center in Tokyo on August 19, and it will last three weeks. More than 1,000 nonferrous metal products will be on display at the exhibition. At the same time, a CNNMIC representative office will be set up in Tokyo.

CSO: 4020/281

FOREIGN TRADE AND INVESTMENT

BRIEFS

EXHIBIT CENTER SET UP--The Beijing International Exhibition Center Company was set up here today. The Company organizes and hosts economic and trade exhibitions or specialized technical shows from abroad. It also puts on Beijing economic and trade exhibitions and export commodities fairs abroad and participates in international fairs. The Company is run by the China Council for the Promotion of International Trade Beijing Sub-council. Its buildings are still under construction. China at present has three international exhibition organizations, two in Beijing and one in Tianjin. Since China adopted the policy of opening to the outside world in 1979, Beijing has hosted 70 specialized exhibitions in which foreign countries and regions have participated. The figure does not include those sponsored by central departments. The capital city has also put on municipal economic and trade exhibitions and participated in export commodities fairs in Japan, Switzerland, Sweden and Syria. Beijing has established business relations with 30 exhibition organizations in Asia, Europe, America and Hong Kong. [Text] [Beijing XINHUA in English 1234 GMT 5 Jul 85]

INVESTMENT CORPORATION SET UP--The Zhongyuan Development and Trust and Investment Corporation has been set up in Zhengzhou, Henan Province, a corporation official announced here today. Zhongyuan Trust and Investment will cooperate with Chinese and foreign firms in development of the petroleum, petrochemical, non-ferrous metal, textile and building material industries in Henan Province through joint investment, loans and leasing. Representatives of 30 firms from the United States, Japan, Southeast Asia and Hong Kong have already held talks with the corporation. A Japanese bank has signed a letter of intent to invest 50 billion yen. "Foreign business people are showing great interest in the joint development of natural gas in the Zhongyuan oil field, and aluminum, molybdenum and coal in the province," an official of the corporation told XINHUA. Both bauxite reserves and coal output of Henan rank second among China's provinces. It also boasts of rich reserves of other non-ferrous metals and natural gas. The corporation was set up with approval of the People's Bank of China and the state administration of exchange control. [Text] [Beijing XINHUA in English 1248 GMT 5 Jul 85]

CHONGQING SPECIAL CUSTOMS BROKER--A special office handling customs declaration formalities opened Wednesday in Chongqing, according to a local customs official. With the approval of the Chongqing Customs Office, the

office is set up to meet the growing needs of foreign economic relations and trade and improve the import and export declaration system. The official said it handles declaration formalities for imports and exports by air, water, land transport and mail. It also handles declaration formalities for imports to Chongqing inspected by customs offices in other parts of the country, and for exports from Chongqing which have to go through declaration formalities outside the city, as well as customs declaration and examination formalities for commodities in transit via Chongqing. [Text] [Beijing XINHUA in English 1851 GMT 5 Jul 85]

CONTRACT DISPUTES--Both Chinese and foreign businesses will be treated equally under Chinese law in any contract dispute, an arbitration chief said here today. Zhou Yaxian, deputy director of the state administration for industry and commerce's economic contract arbitration committee, told XINHUA that all enterprises in China would receive equal treatment in the legal protection of their legitimate rights and interests. A law covering Sino-foreign economic contracts came into effect on July 1. So far, 829 joint ventures, 1,346 Sino-foreign cooperative enterprises and 69 enterprises financed solely by foreign investment have been established in the country. Zhou said the new law gave them extensive legal rights. In any dispute, either side could apply for arbitration. Both sides would be treated equally. He also called on all arbitrators to study law and international finance and trade carefully to ensure that they settled disputes correctly. [Text] [Beijing XINHUA in English 1541 GMT 11 Jul 85]

PACKING RULES ISSUED FOR EXPORTS--China will strictly inspect the packaging of dangerous goods for export by sea from July 1. Provisions to this effect were jointly promulgated here today by the State Planning Commission, the Ministry of Foreign Economic Relations and Trade, the Ministry of Communications and the State Administration of Import and export Commodities Inspection. Producers and handlers must pack, store and transport them safely. Containers must be sturdy, and foreign ones must have international test certificates. Loading and unloading must not lead to damage and leaking. Manufacturers' containers must be officially inspected, and harbor authorities must handle such goods as certificates indicate. Irregularly packed dangerous goods will be banned from warehouses and ships. [Text] [Beijing XINHUA in English 1430 GMT 12 Jun 85]

TRADE DELEGATION VISITS SIERRA LEONE--Beijing, 10 Jul (XINHUA)--News from Freetown: Sierra Leonean President Stevens received Sha Wei, head of a Chinese Government trade delegation, in the capital of this country on 9 July. In a cordial and friendly atmosphere, the two exchanged views on issues of bilateral trade relations and expressed the desire to further trade relations between the two countries. The Chinese Government trade delegation arrived in Freetown on 3 July for a 1-week visit to Sierra Leone. [Text] [Beijing XINHUA Domestic Service in Chinese 1147 GMT 10 Jul 85/OW]

ZHEJIANG WORLD BANK LOAN--The World Bank plans to grant a loan for the construction of the first generator of (Beilun) Power Plant in Zhejiang. The plant is to be installed with 4 coal-burning generators, with a total capacity of 2.4 million kwh. The first generator is scheduled to be put into production in 1990. When the plant is completed, it will generate 15.6 billion kwh annually. [Summary] [Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 5 Jul 85 OW]

JIANGSU FOREIGN TRADE FIRM--With the approval of the Ministry of Foreign Economic Relations and Trade and the Jiangsu Provincial People's Government, the Nanjing Foreign Economic, Technical, and Trade Corporation--the first enterprise in Nanjing authorized to import and export--began operation today. The corporation will utilize foreign funds and import technology to accelerate the technical transformation of enterprises in Nanjing, expand exports, and serve as a channel for economic and technical cooperation between Nanjing and the international community. [Summary] [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 1 Jul 85 OW]

WANG DAOHAN AT MEETING--The second annual meeting of the China Society of World Economy opened this morning. It is attended by more than 200 specialists on world economic affairs who have gathered in Shanghai for the meeting. Mayor Wang Daohan attended and spoke at the meeting. The annual meeting will focus its discussions on the world economic situation and trends and strategy to develop China's foreign economic relations and trade. [Text] [Shanghai City Service in Mandarin 1100 GMT 1 Jul 85]

LEADERS INSPECT PRODUCTION LINE--On the eve of 1 July, the province's first imported production line for making knitted woolen sweaters was put into operation. Leaders of the provincial party and government, including Zhao Jaifeng, Huang Jingpo, Yin Kesheng, Zhang Guosheng, and Song Lin, visited this production line at the No. 1 Qinghai knitwear factory, and inspected products made during the trial run. The No. 1 Qinghai knitwear factory is an enterprise more than 30 years old. [passage omitted] In November of last year, with the help of the provincial departments concerned, the factory signed a contract with Hong Kong businessmen at the Kian international importation talks. It agreed to import a production line with an annual production of 200,000 pieces of knitwear. The production line consists of 172 items of equipment made in Japan, the United States, and FRG. It is expected that when all of the equipment is put into operation, the production line will increase the output value of the factory by 3.2 million yuan, or will increase the profit and tax delivery by 1 million yuan. The investment is expected to be repaid within 2 years time. [passage omitted] [Excerpts] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 2 Jul 85]

GANSU SIGNS CONTRACT--A contract for importing a large steel-rolling project was signed in Lanzhou on 1 July. The Mannesmann Demag Company of West Germany is supplying the entire technology and the key equipment for this single-track high-speed rolling machinery, which can produce 400,000 tons a year and roll 90 meters per second. The General Electric Company of Sweden is supplying the ancillary electrical equipment. This machinery will be installed at the Jiuquan Iron and Steel Company. After the project is completed, it will completely transform the current situation at that company and turn it into a medium-sized iron and steel combine producing rolled steel as well as pig iron. Its steel products will not only satisfy

the province's needs but can also support construction throughout the northwest. Representatives of the Jiuquan Iron and Steel Company, the provincial import and export trading company, Mannesmann Demag of West Germany, and the General Electrical Company of Sweden signed the contract. Provincial CPC Committee Deputy Secretary Jai Zhijie and Vice Governor Zhang Wule attended the ceremony. [Text] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 1 Jul 85]

HAINAN TO SELL IMPORTED COMMODITIES--The Ministry of Commerce has recently issued a document, granting Hainan Island the power to sell to other provinces seven imported commodities controlled by the central authorities. These seven imported commodities are: television sets, including color television sets, videorecorders, radio-recorders, cameras, electronic calculators nylon cloth, and motorcycles. In addition, the provincial people's government has recently formulated regulations, allowing Hainan Island to sell 23 imported commodities to other provinces. These commodities are: duplicators, air-conditioners, temperature readjusting devices, air compressors, motor vehicle receivers and transmitters, minimotors, transformers, rectifiers, computers, computer-calculators, television receiving monitors, hifi systems, projector television systems, video recording equipment, television cameras, paper for calculator use, small metal tools, band saws, electric xysters, [words indistinct], wallpaper, projectors, and tire pumps. Thus, Hainan Island can sell 30 imported commodities to other provinces. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 28 Jun 85]

BINGQIAN WRITES INVESTMENT SOCIETY--The China Investment Society was inaugurated here today. The Society will coordinate the efforts of experts, researchers and scholars concerned to study fixed-assets investment in China. The Society will study the experiences of foreign countries and invite foreign investment experts, according to the charter of the society. In a congratulatory letter, upon the founding of the Society, state councillor and minister of finance Wang Bingqian said that inflexible management constitutes a major problem in China's economic work. [Text] [Beijing XINHUA in English 1610 GMT 15 Jul 85]

CSO: 4020/281

SPECIAL ECONOMIC ZONES

SHENZHEN MAYOR DESCRIBES AREA'S SUCCESS

OW070930 Beijing XINHUA in English 0897 GMT 7 Jul 85

[Text] Industrial production in Shenzhen, one of China's four special economic zones (SEZ), neared 1.3 billion yuan in the first half of this year, almost double that of the same 1984 period.

Addressing a meeting with Hong Kong business people on Saturday, Mayor Liang Xiang said this testified to the success of the experiment in this special economic zone which he described as a fast growing new socialist venture.

Shenzhen is south of Guangzhou, capital of the South China province of Guangdong, and adjacent to Hong Kong.

Other facts he gave to support his statement included:

- A local revenue almost twice as big as in the first half of 1984;
- Retail sales of one billion yuan, a 25 percent increase;
- Conclusion of agreements with overseas firms involving a total investment of 600 million U.S. dollars; and
- Start of construction on several major projects including a power plant, a glass works and a titanium white powder factory.

Economic growth in Shenzhen was steady, comprehensive and harmonious, Mayor Liang said. Existing joint ventures and enterprises funded by other provinces yielded more profits than last year. Local revenues increased considerably and Shenzhen's foreign exchange income and expenditures were balanced with a small surplus.

Shenzhen's economic development since the special economic zone here was established five years ago, depended on the country's open policy and the sez's special policies and flexible measures, the mayor stressed.

The principal sources of construction funds were overseas investment, local revenue and bank loans, which between them accounted for 87 percent of the total capital outlay. Investment made by the state treasury accounted for less than 6 percent, and money from government ministries and other localities just 7 percent.

Mayor Liang said he was confident of the Shenzhen SEZ as an experiment ground for the open policy and reform. Opening to the rest of the world and economic restructuring were national policies made by the central authorities, Liang said. They had come to be an irreversible historical trend.

Zou Erkang, another senior official in the city government, said at the meeting that the SEZ planned to bring in seven billion U.S. dollars of overseas funds by the end of the century.

Shenzhen would provide preferential treatment, legal protection and favorable conditions for overseas investors. He was sure that Shenzhen would blaze a new trail in accelerating socialist construction the Chinese way by upholding national sovereignty.

CSO: 4020/281

SPECIAL ECONOMIC ZONES

BRIEFS

CREDIT CARDS ISSUED--Guangzhou, 11 Jul (ZHONGGUO XINWEN SHE)--The Zhuhai Branch of the Bank of China issued more than 500 renminbi credit cards (for units and individuals) from March to the end of June this year, with a balance of more than 500,000 yuan involved and consumption funds reaching more than 100,000 yuan. The renminbi credit card business is a new venture of the Zhuhai Branch of the Bank of China and is something never tried in the country before. There are two kinds of credit cards--gold cards and silver cards. Prospective clients can select the gold or silver ones in the light of their own income. The initial deposit fixed for the gold card is more than 1,000 yuan. The initial deposit for the silver card is more than 300 yuan, with no limit on extra amounts deposited. Deposits carry interest which is automatically calculated by computers once a year. Against the presentation of a valid credit card, card holders can withdraw cash from any organ under the bank and need not pay cash for goods or services at 20 hotels, restaurants, and bazaars bound by contracts with the bank. [Text] [Beijing ZHONGGUO XINWEN SHE in Chinese 1254 GMT 11 Jul 85 HK]

CSO: 4006/806

LABOR AND WAGES

CHONGQING FACTORY MANAGER FIRED FOR ASSAULTING UNION LEADER

HK180331 Beijing CHINA DAILY in English 18 Jul 85 p 3

[Text] A factory manager in Chongqing, Sichuan Province, has been dismissed from his office after allegedly severely beating a trade union leader who criticized his choices for promotion.

Leaders of the glass factory in Qijiang County, secretly promoted 18 cadres over the past eight months, WORKER'S DAILY reported. The party secretary, the factory director and deputy directors were among those promoted by two steps in salary.

When the workers learned of the unfair promotions, they were so angry that they asked the trade union to lodge their protests.

Luo Shaohua, deputy director of the trade union, talked to the leaders on behalf of the workers. He criticized the leaders for violating Party regulations. The leaders were offended and Ma Zhongjie, a deputy director, reportedly beat Luo so badly that he was spitting blood, the newspaper said.

The abusive action was reported to the city's trade union. The municipal government and Party committee launched an investigation and eventually Ma Zhongjie was dismissed from his post. The party secretary of factory, Huang Mingyan, was given a disciplinary warning by the party.

An accompanying commentary in WORKERS' DAILY praised the actions of Luo Shaohua, saying that he behaved well in attempting to safeguard the rights of the workers.

"Luo's sense of responsibility on exposing malpractices within the Party and persistence in putting forward the people's views should be praised," the commentary said. It pointed out that adjustments in wages, awards and promotions are key areas for concern in the current economic reform. They will backfire and demoralize workers if they are not handled correctly.

CSO: 4020/292

LABOR AND WAGES

BRIEFS

LI LIAN VISITS LABOR MODEL--Ma Hengchang, member of the NPC Standing Committee, deputy secretary of the CPC Committee of the Qiqihar No. 2 Machine Tools Plant, and a national labor model is seriously ill and is hospitalized at the army's hospital in Qiqihar City. On 14 July, Li Lian, secretary of the provincial CPC Committee, arrived at the hospital to cordially express sympathy and solicitude. Ma Hengchang is 76 years old and when he became seriously ill, underwent two operations at the Sino-Japan Friendship Hospital in Beijing Municipality. At present, he is in very poor health. After hearing a brief report given by the leading treatment faculty of the hospital, Li Lian went over to Ma Hengchang's bed and encouraged him to rest quietly and recuperate in the hospital in order to overcome his illness. [Text] [Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 15 Jul 85]

CSO: 4006/762

TRANSPORTATION

JOURNAL ON IMPROVING FOREIGN TRADE TRANSPORTATION

HK140900 Beijing JINGJI YANJIU in Chinese No 5, 20 May 85 pp 77-79, 40

[Article by Zhang Songtao [1728 2646 3447] of the Comprehensive Planning Office of the Ministry of Foreign Economic Relations and Trade: "An Important Factor Restricting the Development of Our Nation's Foreign Trade--An Analysis of Various Points in Speeding up the Development of Transport Facilities for Foreign Trade"--written in February 1985]

[Text] Following the continued deepening of the reform of our nation's economy, including the foreign trade system, our nation's foreign trade has entered a brand-new period of prosperity. In 1984, our nation's foreign trade experienced a fine situation, better than had been seen before, and both imports and exports reached record levels. The various aspects of reform work all saw further development and fully motivated the enthusiasm of the various regions, departments, and enterprises. As the policy of enlivening the domestic economy and opening to the outside world becomes more deeply entrenched in people's minds, our nation's foreign trade will experience unprecedented great development. Thus we must pay great attention to and strengthen the development of the various aspects and basic work of foreign trade. Of this work, the rapid development of transport facilities for foreign trade is a task which brooks no delay.

At present, the situation of foreign trade transport facilities being unable to accord with actual demand is quite serious. Sea freight is the major form of foreign trade transport, accounting for 90 percent of the foreign trade volume. The number of ports and berths in our nation has increased from the pre-liberation figure of 61 to over 300 in 1984. Of these, 5,000-ton berths number 294, while the 10,000-ton deep-water (over 9 meters) berths number 155. There are over 30 ocean routes reaching 400-plus ports in over 100 countries and regions. However, following the vigorous development of foreign trade, the present situation is far from able to meet demands, which seriously restricts the development of foreign trade. The major manifestations are as follows: 1) Ports and berths are greatly insufficient. The most senior consultant for the Tianjin port, who is employed by our nation, Mr Sacmio Torll, believes that, as Tianjin Port handled about 15 million tons of freight in 1983, of which 11 million tons was foreign trade freight, using 26 berths, if in the near future foreign trade volume increases to 30 million tons, it will be necessary to add another 34 berths. If at the end of the century the foreign trade volume

reaches 50 million tons, Tianjin Port will need 80 berths. Other ports in the nation also have this problem to differing degrees. 2) Freight arrivals are not regular, which aggravates problems. 4) The ideology of serving the ships and freight well has yet to be established in port work. 5) The use of existing berths is not scientific and systematic, and the ports are thus not used to their fullest capacity. Foodstuffs, machinery, steel products, and fertilizers are all loaded and unloaded at the same place. There are no specialized loading facilities or systematic arrangements whereby things can be done in an assembly line process.

This situation led to the predicament in 1983 where the average daily number of ships in port was 267, while the average daily number engaged in loading or unloading was only 98. This meant that every day there was an average of over 169 ships waiting to berth. At Tianjin Port alone there was a daily average of 30-40 ships waiting at sea with no way to enter the port. If we postulate that, of these 169 ships, half were kept waiting irrationally and that each ship (including both domestic and international ships) was forfeiting \$5,000 per day, this cost the state the enormous sum of \$150 million over a year. Apart from this, it also creates serious stockpiling of goods at the port. Apart from driving up the storage and interest charges, it also results in goods which are urgently needed not reaching their users in a timely way. This affects normal production and consumption. At the same time, because storage conditions at the port are insufficient and the period goods are piled up is quite long, it leads to the quality of some goods seriously declining. In some cases the goods must be disposed of.

Like sea transport, the railways, air services, and highway transport also have problems in unloading and transportation capacities being far from sufficient. First, because import and export goods are moved directly by the railways and the handling capabilities at the transfer points are poor, it often occurs that there is great pressure on the railway cars both leaving and entering the ports. Second, the railway departments themselves overload their cars, seriously affecting the goods which are arriving or being dispatched from the port. Thus, the railways are unable to transport import and export goods to and from the hinterland in a timely, smooth, and efficient way. In 1983 there were 21 ports at which railway capacity was restricted, up from 16 the previous year. Every day around the nation there are requests for over 88,000 railway cars, but only 63,000-plus cars can be supplied. This produces a great stockpiling of goods and seriously affects the normal functioning of foreign trade transport. The transport of foreign trade import and export goods by road or by air is just beginning in our country and is quite backward. In 1983, the foreign trade volume carried by air freight was only about 10,000 tons. Riverine and conduit transport is also at quite a low level. We still have not brought into play the advantages of the different types of transport.

Our nation's foreign trade transportation does not accord with the objective of overall development in foreign trade. This requires that we find a solution quickly, save time by implementing reforms, and meet the challenges. We must do well in the following aspects of work:

1. Renovating the ports and expanding the berths is the key at present to achieving a freer flow of foreign trade goods.

Renovation and expansion are inter-related and complementary. It is especially important that we properly handle the relationship between the two. In the renovation, with a little money, a lot can be done. Within a short period, we can partially resolve some pressing problems. This will be especially so during the Seventh 5-Year Plan, when large-scale investment by the state will be limited as before and we will have to strengthen renovation work to accord with the current situation. However, in the past, whenever the problem of transportation in foreign trade ports was raised, most attention was fixed on adding and expanding berths and similar problems. No attention was paid to using our heads to work out methods by which existing port capacities could be raised. Our existing ports have a definite base and much potential which can be exploited. Taking Tianjin Port as an example again, in 1984, after Mr Torii took up his post as senior consultant, after full investigations and research, he discovered that twice a year the level of the coastal rivers and the sea level were the same. When the sea water and the fresh water were at the same level, the locks could be opened and the sea water would not flow inwards. Relying on repeated experiences and hard work, he was finally able to open the coastal river locks which had been closed for so long. By this means, five 5,000-ton berths inside the locks could again be used. This did not result in sea water flowing in or affect agricultural production, and from June 1984, five fewer ships were left waiting at sea. The effects of this were great and provided us with beneficial inspiration. Why have we not seen, or have we left unattended for so long, some obvious problems. We must say that this is related to our level of management and our esteem for bureaucratism. Thus, the scientific use of ports must be stressed at the same time as we add and expand berths. We cannot emphasize one at the expense of the other. The significance of the former is especially obvious at present. In the work of renovating the ports, we must first establish the ideology that ports are intended to serve ships and to serve goods. We must overcome the long-existing mistaken viewpoints that shipping and goods departments request something of us, and that whether ships are loaded and unloaded quickly or slowly is of no concern to us. This idea seriously affects the effectiveness of and the sense of duty in port work. We must also adopt modern scientific management methods and rationally and effectively use existing equipment so as to raise loading and unloading capacities. In aiming to resolve the existing problems where port management is disordered, equipment use efficiency is low, there are poor results in organizing things rationally, and so on, we must carry out thorough investigations and research and formulate feasible measures.

At the same time, in adding and expanding berths, we should also act in accordance with the principles of seeking truth from facts and acting in accordance with one's capabilities. We must gradually develop step by step and stage by stage in a planned way and with the focus on key points. We must avoid rushing headlong into mass action, being unconcerned about capabilities in terms of funds and materials, and spreading actions onto a wider plane. For those ports where railway facilities are poor, loading

and unloading capacity is low, and there is insufficient storage capacity, we should not excessively stress new berths. Rather, we should start by transforming, adopting and scientifically using existing equipment and gradually carry out this work.

For those key ports which have good conditions, strong loading and unloading capabilities, and good transport, and for which it is obvious that the insufficiency of berths is affecting the full use of the port's capacity, then we can consider taking a step forward. In brief, in renovation and expansion, we must plan things and resolve problems in an overall way and, in accordance with the different situation in each port, we should adopt different policies. Some will be first, others later, and some will be important, others secondary. We must divide them in terms of importance and urgency and adopt the best policies so as to achieve the best economic results.

Transforming and renewing equipment and implementing advanced technology is also an important link in speeding up the pace of port construction. Good management and good technical equipment are the two important things we must depend on in achieving victory. Neither can be overlooked. In the current situation where state investment is insufficient, we must think of methods and avenues by broadening policies. On the one hand, we can boldly import foreign capital, run joint enterprises with foreign companies, accumulate funds, and make a concerted effort on the key projects, so as to quickly bring them to where they have a productive capacity. On the other hand, we can broaden the avenues for raising one's own funds and encourage ports run by the society and ports run by collectives. By taking various avenues, we can resolve the difficulties of the production capacity of ports being insufficient and there being a deficiency of funds. We can first select some trial enterprises in those ports which have the conditions. When successes are achieved, we can quickly propagate the experiences.

2. Actively bringing into play road transport, air freight and riverine transport will play an effective role in taking the load off the railways and will raise the capacity of the ports in handling goods and the capacity of the railways in transporting import and export goods to and from the hinterland.

We must bring into play the regulatory role of price levers. Apart from readjusting the ratios between the charges for road, riverine, air, and railway transport, we must make efforts to upgrade existing road facilities, raise the percentage of first-quality and second-quality highways and appropriately raise the road tolls. We should allow each province to determine the increase in the light of its own conditions, but 10-15 percent would be appropriate. Small vehicles from state-owned organs and military vehicles transporting supplies should be exempted from the road tolls. After a certain number of vehicles pass through in a fixed period, the tolls may be reduced. However, in other situations, all vehicles engaged in transportation, including military vehicles used by military unit enterprises, should be subject to the general unified road tolls levied by various areas. In order to ensure a long-term stable source of income

for road-building, apart from the road tolls, all units and individuals who purchase vehicles, including state organs and army units, should be subject to a vehicle purchase tax. The tax rate can be continually adjusted in accordance with the different situations at different times. At present, we could have different rates for China-made vehicles and imported vehicles. The former should be less than the latter. The income from this new tax should be used exclusively for highway construction. In those areas where transport capacity is centralized and the economy is developed, we could consider collecting funds or obtaining credit to build high-speed highways, bridges, and tunnels.

At the same time, we should greatly develop new air freight routes, expand airports, and change some military airports into military-civilian use airports. Apart from increasing our abilities to transport high-value perishable foreign trade goods, it will also increase air passenger capacity. According to estimates from the relevant departments, in transportation between two distant points, over the same period, the passenger and freight capacity of airplanes far exceeds that of trains. For example, the Beijing to Guangzhou passenger train, on a two-way return trip over 4 days, can only carry about 2,000 passengers. A Boeing 747, however, could do eight trips over the same period and carry 4,800 passengers, 2.4 times as many as the train. Using these figures, the train which could carry 1,000 passengers could carry 2,000-plus tons of freight. If the present annual airline passenger volume of 4.45 million passenger-trips increases by 20 times to 89 million passenger-trips, then the railways, as their passenger volume will have been spread out, will be able to transport an additional 178 million tons of freight. Also, after the number of passenger trains on the railways decreases, the number of freight trains can be increased. This will allow a 30-plus percent increase in freight volume.

3. Starting with reform of the system, we must relax restrictions and enliven trade, promote competition, implement diverse operational forms, and motivate the enthusiasm of the regions, departments, collectives, and individuals in regard to transport.

Every port office must implement the separation of government and enterprise functions and strengthen horizontal relationships. The state must allow and encourage localities and departments to set up and manage by themselves port berths, loading and unloading equipment, warehouses, and the railway transfer lines which link with the port. The important ports and berths which undertake most of the nation's foreign trade tasks should be under the unified control of the state. However, for some other ports which have poor conditions, a weak base, and are urgently waiting to be developed but lack funds and materials, we should quickly allow the localities or the society to run these ports. We can even think about allowing collectives or individuals to undertake the port management or have various forms run the port together. Thus, the major ports will be handled in a unified way by the state and we can think about allowing collectives or individuals with the capabilities to handle a certain number of wharves, berths, or loading and unloading machines. This will mobilize the enthusiasm

of the collectives and individuals and will link effectiveness in transport with the material interests of the staff and workers. It will join scientific management with the situation where staff and workers act as their own masters, will raise labor productivity, and will raise the transport efficiency of the port.

We must break through the present system whereby there are departmental monopolies and each does things in its own way. We must establish overall transport leadership involving ports, railways, highways, air services, and riverine and conduit transport. There needs to be unified national plans and things should be arranged in an overall way so that we can organize a rational transport network. Relevant state departments must carry out thorough investigations, strengthen feasibility research, and set up necessary groups. Finally, we should establish a national leadership system, including production and transport departments, which will handle the management of all land, sea, and air transport. Through unified research the national communications and transportation plans and investment, as well as relevant principles, policies, laws, and regulations, can be decided upon and the relationships between the various transport forms can be regulated. Thus, transport will be arranged in an overall, unified, comprehensive way and economic benefits will be raised.

#### 4. Foreign trade departments must actively coordinate with transport departments in resolving the problem of an insufficient transport capacity.

We must further improve the domestic and foreign transport network which includes the foreign transport system, and actively plan and develop self-managed foreign trade ships, ships that are run jointly with localities, and joint venture ships, so as to increase our own transport capacity. We must greatly develop joint transport systems with the characteristic of "door-to-door" service, and greatly develop the transport business using the continental bridge, using containerized sea transport, and using Hong Kong as a trans-shipment point. It is necessary to revive, expand, and newly establish representative organs in Japan, Europe, the United States, Canada, Hong Kong, Singapore, and other places. We should also continue to develop branch-line transport, strengthen cooperation between provinces along rivers, and develop a Chang Jiang foreign trade fleet. It is necessary for those coastal and riverine areas which have the conditions to actively develop cooperation with localities, departments, and foreign capital, and to fully use and expand foreign trade wharves for their own use. We must also develop and make use of Beilun [0554 0178] Port to alleviate the present situation of berth shortages. In the use of freight trucks in handling foreign trade goods, we must have a unified plan and change the former service aspect where they were solely used to transport commodities purchased for export. We must provide services extending into the hinterland by having collective ports, collective stations, and other forms of alliances. We must coordinate work in the economically open regions and the 14 open coastal cities with the development of the Shanghai Economic Region, and must establish "joint highway transport" enterprises to fully bring into play road freight capabilities. In this way we can form a rational overall foreign trade transport network. It is

necessary to pay attention to developing foreign trade air freight services. We can consider the establishment of a foreign trade air freight company which can carry out joint operations with foreign enterprises, localities, airlines, and other departments. It can purchase second-hand freight planes, rent airport time, and establish direct air freight services between Beijing, Tianjin, Shanghai, Guangzhou, Nanjing, Dalian, Qingdau, and the other major ports, as well as to neighboring countries and areas (such as Japan, Hong Kong, Singapore, and so on).

In brief, only if our policies are correct, our measures appropriate, and we fully bring into play the role of every type of transport and motivate the enthusiasm of all sides so as to handle freight transport on a large scale, will we be able to continually increase freight capacity and guarantee foreign trade transport and the freight services of the entire national economy. In this way we will be able to accord with the strategic demands of opening to the outside world and achieving the four modernizations.

CSO: 4006/777

## TRANSPORTATION

### COORDINATED DEVELOPMENT OF TRANSPORTATION STRESSED

Beijing GUANGMING RIBAO in Chinese 12 Jul 85 p 3

[Article by Wang Haitao [3769 3189 3447]: "Change Transportation Structure and Accelerate Coordinated Development"]

[Text] Modern communications and transportation systems consist primarily of five means of transportation--railways, highways, water transportation, aviation and pipelines. Since the founding of the PRC, China's communications and transportation have developed substantially, but they are still a weak link of the national economy. The main expression of this is that energy resources and transportation for foreign trade and passengers are far too insufficient to meet the needs of the national economic development, especially the needs of current commodity circulation. In addition to the weak infrastructure of communications and backward technology, the main reasons are that the five means of transportation are not well coordinated, their structure and distribution are irrational and their respective degrees of development are disproportionate.

At present, China's rail transport system is overloaded while the potential of other means of transportation has yet been developed. According to 1984 statistics, the freight turnover of railways, highways, water transportation and pipelines respectively accounted for 66, 10, 18 and 5 percent of China's transportation; the passenger turnover of railways, highways, water transportation and civil aviation respectively accounted for 57, 35, 5 and 2 percent. These figures show that the freight and passenger turnover of railways both ranked first among the five means of transportation. The reliance of passenger and freight transportation on railways has caused railways to reach the saturation of their transport capacity while other means of transportation "do not have enough to eat." For instance, there are many ways to direct port traffic, but China relies mainly on railways. In 1984, over 1,800 trains were loaded daily in coastal ports and yet there were some 380 foreign trade vessels waiting to be unloaded outside the ports and over 1.7 million tons of imported goods waiting to be distributed in the ports. This is a prominent manifestation of the imbalances in transportation.

The irrational structure of transportation is mainly caused by a lack of understanding of the position and role of such means of transportation as highways and waterways. Since the founding of the PRC, communications and

transportation investment has always focused on railways to the neglect of highways and water transportation. In fact, highways and water transportation have certain advantages unavailable with rail transport.

Highway transportation requires less time for loading and unloading and fewer links for transfers. It is flexible and suitable for door-to-door delivery. Highways are used to gathering and distributing staple goods and materials. There is a close link between highways and other means of transportation. Besides, it costs less and takes less time to build highways. It is estimated that building 1 km of single-track railway costs 2 million yuan while building 1 km of third-grade highway costs only 300,000 yuan. With regard to economic results, highways are also superior to railways in short-distance transport and in transporting odds and ends and fresh and live products.

China has exceptional advantages in the development of water transportation. Its coastline measures 18,000 km. It has about 110,000 km of inland waterways and many good harbors. Rivers south of the Qin Ling and the Huai He stay ice-free all year round. They have sufficient conditions for water transportation. Compared with other means of transportation such as railways, water transportation requires less investment and cost, uses less land and has a larger transport capacity and a higher rate of comprehensive utilization.

Judged from the industrial layout of China, the distribution of natural resources and the geographical conditions of communications itself, China must vigorously develop water and highway transportation. China's industries are distributed mostly in cities on the coast, which runs from north to south, while raw materials are produced in the west. Imported goods need to be shipped from the coast to other parts of China. The northern and southern strains of grain still need to be exchanged and regulated to a certain extent. This requires that we fully utilize the major transit lines of the Chang Jiang, which runs from west to east, coastal transit lines which run from north to south, and highways which run in all directions, so as to solve the problem of overloaded railways.

At present, all countries of the world pay great attention to the development of comprehensive transportation. The proportions of the means of transportation are determined in accordance with different national conditions. China is a country with a vast territory and a huge population. Neither passenger nor freight transportation can be completed by one means of transportation alone. Instead, the various means of transportation need to be coordinated. Therefore, China must readjust its transportation structure and make overall plans for the five means of transportation to develop them in a coordinated manner and form a comprehensive transport capacity. Judged from China's present reality, railways still need to be developed continuously. However, more attention should be paid to the development of highway and water transportation while developing air transportation.

In readjusting the transportation structure, China must proceed from the viewpoint of establishing a unified communications and transportation network and formulate a comprehensive development plan. In light of local realities, China should consider the characteristics of various means of transportation and adopt the most rational one. For instance, railways should be considered

mainly for long- and intermediate-distance passenger and freight transport; coastal and inland navigation areas should give full play to the role of water transportation; and highways should be used mainly for large amounts of short-distance passenger and freight transport and for transporting expensive live and fresh products. At the same time, China should also provide through transport service and ensure that a ticket is good for railways, highways, water transportation and civil airlines. Not only will this provide convenience for passengers and cargo owners, it will also increase transport efficiency.

12302  
CSO: 4006/802

TRANSPORTATION

DEVELOPMENT OF EXPRESSWAYS STRESSED

Beijing GUANGMING RIBAO in Chinese 12 Jul 85 p 3

[Article by Tang Jie [0781 2638]: "Develop Expressways"]

[Text] Expressways are an important sign of the modernization of highway communications and transportation. The major strong points of highway transportation are flexibility, fewer intermediate transfers and the ability to perform door-to-door delivery. The greatest feature of expressways in addition to the strong points of regular highways is high speed, which always means large traffic capacity. The traffic capacity of a typical railway is measured in 10 million tons whereas that of expressways is measured in 100 million tons. In other words, the traffic capacity of 1 km of expressway is 10 times greater than that of 1 km of railway; or, the traffic capacity of one expressway is tantamount to that of 10 railways of the same length. This is why the developed countries of the world have dismantled railways and built expressways.

It was not until the 1950's that expressways began to develop in large numbers. To date, the United States has built over 69,000 km of expressways, ranking first in the world; the Federal Republic of Germany has built over 8,000 km, ranking second; and Japan has built 3,400 km, ranking third. Because expressways have great economic results, they have a vital bearing on a country's industrial distribution and development. About 80 percent of Japan's leading industries, including integrated circuits, household electrical appliances and automobiles, are distributed within a 20-km range around expressway exits. About 80 and 90 or even 100 percent of the raw materials, spare parts, accessories and products of these plants are transported by expressways. Convenience and benefits created by the speed, reliability, safety and the network establishment of expressways have substantially accelerated the development of these industries. Now, many developing countries have also begun to pay attention to expressway development.

The roadbed of an expressway is usually 26 to 30 meters wide. Depending on traffic volume, an expressway may have 4, 6, 8 or even 12 lanes with a median. Both sides of an expressway are totally closed. Grade separation structures are used for all crossings of highways and railways. The requirement for the levelness of the road surface is extremely high. The speed limit may be set

between 120 and 180 km per hour or as high as 200. All control and signal systems are electrified and automated. Although their construction costs are high and their investment is huge, expressways can yield great economic results and recover investment in a short time.

Vehicles running on expressways are mostly large trucks, trailer trucks, special-purpose vehicles, diesel vehicles and container trucks. This has greatly increased the efficiency of transportation and reduced fuel consumption and costs.

Expressways have medians and are totally closed. Therefore, they are safe and reliable. They can reduce losses caused by traffic accidents. Higher speed can help save time and double the use rate of vehicles, thereby greatly increasing transport capacity.

Since expressways have a large transport volume, one expressway can replace two to three ordinary highways, thus reducing road construction and land occupation.

Expressways can also accelerate commodity circulation, capital turnover and economic development.

Due to the low standards and poor quality of China's existing highways in addition to the small tonnage of vehicles and mixed traffic, vehicles can only run at 30 km per hour, resulting in high consumption of time and fuel, heavy wear and tear on tires, frequent traffic accidents, low efficiency, high costs and poor economic results. This situation cannot meet the needs of the development of current commodity production. At present, construction has begun on the Shanghai-Jiaxing and the Shanghai-Songjiang expressways, the feasibility study of the Guangzhou-Shenzhen expressway has been concluded, the initial design of the Jingjintang expressway has been completed, and the construction of the Huning, Huhang and Hangyong expressways has also been included in the agenda. A first-grade highway was originally planned to be built between Shenyang and Dalian. The Liaoning Provincial Government recently decided to build it section by section according to expressway standards. Along with the development of the national economy, we can believe that there is a bright future in the development of expressways in China.

Container transportation involves gathering a certain amount of cargo and transporting it in standardized, multi-purpose, serialized and reusable containers. Its advantages are safety, quality, speed and economy. Tianjin harbor boasts a modernized container wharf.

12302  
CSO: 4006/802

## TRANSPORTATION

### BRIEFS

**CHENGDU BUREAU PLANS MORE AIRPORTS**--In the next 5 years, the Chengdu Civil Aviation Bureau will continue to carry out structural reform to meet the needs in economic construction, foreign trade, and tourism. It will set up an airline company, buy a number of new airliners and advanced equipment, introduce new international and domestic flights, increase flights, increase flights, and build and enlarge a number of airports. A passenger building with modern equipment and facilities will be built at Chengdu's (Xiaoyou) Airport so that Chengdu and Chongqing can truly become hubs of civil aviation for Sichuan and the southwest and aviation centers for handling passengers and freight. [Text] [Chengdu Sichuan Provincial Service in Mandarin 1030 GMT 15 Jul 85 HK]

**HAINAN BUILDS, REPAIRS HIGHWAYS**--Hainan District's highway system has launched a full-scale social labor emulation drive to strive for better results, and has introduced the economic responsibility system on a contract basis. In the first half of this year, the average percentage of maintaining the provincial highways up to high quality level was 85.5, or 106 percent of the assigned target. Of the figure, the average percentage of main highways at high quality level was 88.7, or 106.9 percent of the assigned target. The percentage of local highways and road surfaces at high quality level have been respectively increased by 22.4 and 20.5 percent compared with the same period last year. The district has repaired on both a large and medium scale 43.5 kilometers of asphalt road surfaces, has repaired on a medium scale 32 kilometers of sand roads, and has improved 15.1 kilometers of roads. [Summary] [Haikou Hainan Island Service in Mandarin 0400 GMT 12 Jul 85 HK]

**HUBEI RAILWAY BOTTLENECK**--Wuhan, 3 Jun (XINHUA)--After 2 years of reform efforts, the Beijing-Guangzhou Railway line's Guangshui section, a longtime "bottleneck" in this line's transportation, has become a section where trains can move rapidly and smoothly. The Guangshui section embraces an area from the West Station of Wuhan City to Guangshui Station on the Hubei-Henan border. Traffic improvement in this section has increased the hauling of coal on this line by more than 6 million tons a year, a great relief to coal-short Hubei and other southern provinces. [Summary] [Beijing XINHUA Domestic Service in Chinese 0117 GMT 3 Jun 85 OW]

JIANGSU SEA TRANSPORT--Since 1984, Zhangjiagang /1728 1367 3263/ Harbor has inaugurated seven international shipping lines leading to Japan, Hong Kong, the United States, Canada, North and West Europe, Cyprus, Singapore, Malaysia and the Persian Gulf. In the first 4 months of this year, the harbor handled 7,000 standard containers. The harbor is located in Shazhou county. /Summary/ /Nanjing XINHUA RIBAO in Chinese 24 May 85 p 1/

TRAFFIC WORK CONFERENCE ENDS--At the provincial conference on traffic work which concluded recently, leaders of the provincial government pointed out: The most important task now is to face reality, take to a forward-looking spirit, increase transport capacity on widened roads as soon as possible, and raise economic results and social results. All communications departments throughout the province must adhere to the principle of giving state roads preference over provincial roads, must repair, maintain and control the road well; and must contribute to quickly changing the backward situation of Henan's roads. Leaders of the provincial government also pointed out: In future, people's governments at all levels must strengthen leadership over traffic work in policy and plan. They must give assistance to road construction in material and financial resources. They demanded: All departments which are related to roads, must seek truth from facts, strengthen unity and support road construction. /Text/ /Zhengzhou Henan Provincial Service in Mandarin 1400 GMT 27 Jun 85/

CSO: 4006/749

PUBLICATIONS

XINHUA TO PUBLISH WORLD BUSINESS REFERENCE BOOK

OW101655 Beijing XINHUA in English 1645 GMT 10 Jul 85

[Text] Work on a "world directory of industry and commerce", the first authoritative and comprehensive business reference in China, is progressing well, and the Japanese edition should be published this fall.

The directory will be published by the Xinhua Publishing House, an affiliate of the official Xinhua News Agency. The directory will present to the vast Chinese market the latest information on commodities, service, and technical know-how of advanced foreign countries. It will play a vital role in promoting the exchange of economic information between China and the world. It offers foreign businesses an opportunity to expand their influence in the Chinese market.

Business leaders all over the world have shown a strong interest in the book since work began at the beginning of this year. Many have placed entries and advertisements into the directory.

The editing of the Japanese edition, containing more than 1,100 entries, is nearly complete. That edition will be printed in Hong Kong. Distribution should begin by the end of September.

The editorial board has solicited more than 500 entries for the American and Western European edition. Limited by time and difficulties in communication, many firms wishing to be included in the western directory wrote to the editors requesting a deadline extension. So the Xinhua Publishing House has moved the June 30 deadline to September 30.

A separate U.S. edition is being considered, depending on the response from American firms. With the deadline now extended, the Xinhua Publishing House is embarking on a heavy promotional campaign in the United States.

The Xinhua Publishing House boasts a strong contingent of editors, translators, modern printing equipment and a nation-wide network of distributors. It also has agencies in many countries.

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